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SOME FINANCIAL PROBLEMS OF INDIA

By "K"

Reprinted from "Young India"

BASED ON

Prof. K. T. Shah's "Sixty Years of Indian Finance."

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S. GANESAN,

Madras.

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To

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and

L. R. T.

in acknowledgement of an inspiration.

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CONTENTS

		P.
1.	The Wrongs of Indian Expenditure	
2	The Militarist State in India	13
3.	The Wastage of Interest Charges	29
4.	The Drain	43
5.	The Extravagance of the Salariat	55
6.	Mismanaged Public Utilities	68
7.	Some Unjust Taxes	92
8.	Customs Duties	121
9.	The Havoc of the Provincial Contributions	135
10.	The Ethics of Public Borrowing	153

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The Wrongs of Indian Expenditure

In every modern civilised community the outlay of public funds, collected by contributions from the community in a variety of forms, calls forth the liveliest interest from the tax—payers, and demands the greatest carefulness from the authorities entrusted with the outlay. In theory, at least, the layout of these monies must be, like the sowing of the seed by the farmer, in the hope and with the intention that it would be returned a hundredfold to the sower. But this supreme principle of public expenditure seems never to have been learnt by the Government in India. Individual administrators, it may be, may have occasionally lapsed into lucid intervals, and made perfunctory protests for a re-adjustment of expenditure. But, even while their demand was being framed, they must have known that the higher authorities, disposing, like the Gods above, of the fortunes of India, were not in the least likely to attend to any soppy sentimentality. Effussions, like the following, could have appeared in no other light to the "superior" mentality of Whitehall:—

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"Though the financial necessities of the hour have brought more prominently to your view the enormous cost of our Army (16.3 crores) as compared with the available resources of the country, I cannot describe the fiscal difficulties as the main reason for the course we have taken. I consider that if our condition in this respect was most prosperous, *we should still not be justified in spending one shilling more than can be shown to be absolutely and imperatively necessary.* There are considerations of a far higher nature involved in this matter than the annual exigencies of finance, or the interests of those who are employed in the military service of the Crown. *Every shilling that is taken for unnecessary Militrry expenditure is so much withdrawn from those vast sums which it is our duty to spend for the moral and material improvement of the people.*" (Lord Mayo's minute, 3rd October 1870).

This is an excellent sentiment-on paper. lord Mayo omitted to say what he considered to be the imperatively necessary millitary expenditure for this country for its own needs. His successors have taken care not to recall, and much less to rectify, the omission. We are not however, in this instance, concerned with the specific wrongs of the Indian military expenditure. We need only point out that what in every other civilised country is accepted as the one sovereign principle in the adjustment of public expenditure, is either unknown to the present administrators in India; or, being known, is systematically ignored in the interests of "Enlightened selfishness."

Military expenditure is, indeed, the largest and the commonest item to be singled out for purposes of illustration. But a brief scrutiny of every item in the Budget of the Government of India to-day would reveal the fact that there is not a single instance, in which the principle of returning the tax-payer's monies to him, directly or indirectly, is even nominally observed. Take for example the following summary of the principle channels of our public expenditure as given in the Budget of 1923-24:—

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Direct demands on the Revenues.....	Rs.	5,30,38,000
Railways: Interest & Miscellaneous Charges	,,	27,91,32,000
Irrigation	,,	14,20,000
Posts and Telegraphs...	,,	56,54,000
Debt Services	,,	17,21,57,000
Civil Administration	,,	10,46,35,000
Currency, Mint and Exchange ...	,,	1,13,45,000
Civil Works	,,	1,87,63,000
Miscellaneous	,,	5,21,13,000
Military Services	,,	64,81,23,000
Miscellaneous Adjustments	,,	3,62,000
LESS LUMP REDUCTION ORDERED BY GOVERNMENT...	,,	4,00,00,000
TOTAL EXPENDITURE	,,	130,87,92,000

In this total of Rs. 130 odd crores—which, be it noted in passing, is only the expenditure by the Central Government,—there is not an outlay, equivalent to one in a huudred, which could at all be regarded as productive or profitable. Fifty per cent. are taken for the unmitigated waste of the Army charges, and another 13 per cent. for the equelly unproductive excuse of the ordinary debt. The Railway Debt and the interest thereon may have a semblance of profitability; but those who can pierce beneath the thin crust of official apologia for this large outlay will have realised, even before the Inchcape Committee authoritatively told them, that the present Indian Railway are a wasting asset, where the total outlay habitually exceeds the income. The 5½ crores accounted for by direct demands upon the revenues are an eloquent testimony to the ill-adjusted, ill-designed, ill-corceived machinery of taxation; while the 15, 67 crores spent on Civil administration and Civil works consist so largely of disproportionately high salaries and commissions to the foreign element in or outside the Public Service of India as to be utterly indistinguishable from sheer waste, at least from the standpoint of the national economy of the Indian people. The agricultural analogy given above is thus simply reversed in

the very ground-plan of the Indian public expenditure. Our public outlay acts not like the seed sown in the hospitable and fruitful bosom of mother earth; but rather like a blight that blasts the seed even before it has had time to germinate.

But there are other principles of sound financing which a foreign and therefore unsympathetic, bureaucracy must, and does, necessarily offend against. Public expenditure in this country is like the Irish beggar's definition of his coat: A lot of holes tied together by a thread. It is a veritable maze of blunders and wrongs, or, to call them by a more lawful French name, Torts. Not only does it not heed the need to so outlay itself as to be returned in one form or another to the people from whom it is derived in the first instance; it is utterly innocent of any conception of the ability of the people to support the burden. The nice adjustment between the outlay of the State and the ability of the people to support its burden is a feat of statesmanship that the present rulers of India connot afford even to flirt with. For such a flirtation might quite probably provoke the inquiry about the ultimate intentions even of a most incorrigible coquette; and those not responsible for the governance of India seem to have realised that they would have no answer to make to such a pertinent inquiry. Statemanship does not consist of sleight of hand, or even of accounting. The father of the economic science in Britain herself laid down the canon of ability as among the first of his principles of taxation; but in this country atleast the disciples of Adam Smith seem to remember nothing that is of the best and the soundest in his system of economics. It would, perhaps, be more appropriate to consider the relation of the ability of the people to the expenditure of the State in discussing the revenue of the State; but even in the case we are now labouring at, it may be said that no amount of ability can sustain for ever an absolute and unmitigated waste in public expenditure.

The wrongs of the Indian public expenditure do not consist simply of a systematic violation of the scientific principles of financiering. At bottom they are connected with the original sin of all alien bureaucracies,—a foreign personnel in administration, irresponsible as it is unresponsive, and innocent of any knowledge of the real needs of the peopie they govern. Take a specific grievance like the Home Charges. Forty-six crores, according to the last budget, out of a total of 133 crores, or 35% of the total outlay of the Government of India alone, are spent outside India, and by authority, entirely beyond and above the Government of India. It is, of course, an offence against the cardinal principle of public finance, that the same authority must spend the entire sum collected by taxation which raises these taxes. Funds raised by one body and spent by another necessarily induce a laxity of control and supervision, which is fatal to a proper lay out of the expenditure, even if there is a final supreme co-ordinating authority. In the case of the sums spent by the India Office in Britain, there is no such co-ordination, unless we take the requirement that the entire revenues of India must submit to the first mortgage charge of this extra-Indian outlays as the one co-ordinating link. The Government of India, spending the remaining 65% of the revenues, are responsible to the India Office; but the India Office is not effectively answerable to any power, not even to God. The impossibility of uniform control is not the only offence of the Home charges. They have justly been described, collectively, as a drain from India, which sweeps away, like one gigantic tidalbore in the Hooghly, any surplus of wealth that may have formed in the country by the people consenting to pinch and starve themselves. And, what is still more noteworthy, the existence of the Home Charges facilitates, if it does not actually originate, the spoliation of India, like the one associated with the story of our Currency Muddle. Three years ago we had a magnificent illustration on a truely Imperial scale of the capacity of

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the Home charges to ruin this county. Our standard of money had to be altered, and again altered,–to simplify the payment of these Home Charges! Our cash reserves had to be removed from this country,–again to suit the Home Charges.....Our plighted troth in regard to the maintenance of a fixed rate of exchange had to be broken,–still to meet the Home Charges! Our accumulated surpluses, already removed from this country had to be squandered,–still to pay these Home Charges! And inspite of the known mischief of these charges; inspite of the admitted loss due to their existence, no steps have ever been taken yet to reduce or even to restrict them. They are still going strong.

For some of the torts of the Indian public expenditure, an explanation may perhaps be found in the history of English thought in the last few generations, an adequate theory of public expenditure was never sufficiently understood by British statesmen, and never thoroughly studied by British writers, perhaps because of their philosophical anarchism. The state or rather, its concrete manifestation, the Government, they regarded to be a necessary evil; and the more restricted its scope of activities, the better for the people. The only canon of public expenditure that need under such a conception be formulated may be given in a single word: Retrench. It became the "open sesame" of the British reformers of the Nineteenth Century, and is not even now quite dislodged from the exalted place it had once been given in the pantheon of political economy; though, of course, British finance, with its schemes of Old Age and Pensions and Unemployment Benefits, can now no longer be regarded as the acme of "Do–nothingism". But even while the fever of Faineantism was at its height in Britian, its disastrous consequences were averted by the dynamic force of a powerful democracy. British statesmen dared not make experiments, except when they were no longer afraid of success. In Britain at least, they would no more venture upon aeronautics in airships, until Count Ze-

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ppelin had been finally and bodily inscribed in the roll of the Immortals,–when indeed a British Company (with an Indian Government subsidy) would have no hesitation to start a great experiment in running regular airship services between London and Bombay and Adelaide,–than they would venture upon a Free Trade policy, until Burleighism had made the British industry as secure against foreign competition, as the Navigation Laws had made it safe against foreign invasion. But this explanation of a relative unfamiliarity with the scientific systems of public expenditure would not avail the Anglo–Indian administrators. An experiment has never been refused a trial in India, merely because it was uncertain. From the Greased Cartridge to the last Airship Concession, the Indian Government have never allowed the paltry considerations of finance to stand in the way of the advancement of science,–or of British dominion. It is immaterial if, incidentally the greased cartridges led to the Mutiny. Take another and a less romantic, instance. There is a section in the Government of India Act which prohibits that body from employing any portion of the revenues of India for military expedition outside the frontiers of India. But we know of no instance in which the law has actually hindered the Government of India in their researches for a scientific frontier; and that inspite of a consistent and persistent record of unexceptioned failure. Inspite, however, of making such frequent experiments, the Government of India do not yet seem to have achieved the scientist's Nirvana, or even the Statesman's.

Considering public expenditure in general, it has been said:—

"With its sovereign power to command the wealth of each individual citizen, the State must so apportion expenditure as to develop fully the national institutions according to the accepted ideals of national development." But these ideals themselves may change. We in India are not now aiming at the suppression of the Pindarees as the sole sufficient excuse for the existence

of a strong central government,—unless, indeed, we take the expression of O'Dwyerism about internal unrest as representing the accepted ideal of state-life in this country. We have to recognise that the ideals of state-life are not always, and least of all under conditions like those of India, a spontaneous expression of national sentiment. More often than not the seeming ideals are forced upon a community by stress of circumstances, by environment, or even by historical accidents. For a hundred years and more the United States has developed on the Monroe doctrine of absolute non-intervention. But the instinctive Imperialism of a prosperous people, with woeful inequalities of wealth *inter se*, has at last asserted itself even in America. And we may yet live to see the Twentieth century wasted in a futile Anglo-American rivalry on world dominion, as the last had been by the Franco-Prussian race for European hegemony. The ideals of Indian national life, if they are to be deduced from the military preparations and the general plan of the entire public expenditure in India, would make this people seem the most arrogantly militarists in the whole civilised world. And yet there are nowhere greater and more numerous believers in the doctrine of non-violence than in this country. Until Burns's aspiration is realised, we cannot, of course, say how the Afghans and the Persians and the Tibetans view the Indian array of the forces on the frontier, even though we have no known duty or necessity to keep a perpetual watch on the Rhine. If they take us to be what we seem to be, they would be grossly mistaken; and the irony of it all is that we should have provided them ourselves with the basis for committing the misapprehension regarding our designs. Anglo-Indian statesmanship has never been conspicuous in imaginative excellence. It still thinks in terms of Russophobia and takes no notice of the Turcophil possibilities in India. Statesmanship lacking in imagination, and expenditure of the state lacking in statesmanship, have fastened and

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fathered upon us ideals of state-life, which cannot but act like the legacy of an insolvent estate. Indians consider the repayment of ancestral debts as a religious obligation.

The better to understand the wrongs of Indian public expenditure, let us contrast it for a while with the outlay by a private individual. It is an elementary observation in works on Public Finance that public expenditure is essentially different from private outlay. But even though the contrast may involve a bad analogy, it supplies a good standard for criticism. All expenditure is ultimately dependant upon the available wealth. No amount of casuistry can turn this axiom of private, into a problem of public, expenditure. True, the private individual, if he acts the prodigal too long, may exhaust the indulgence of his father or the accommodation from his banker, and be brought to reason by the salutary application of some chastening discipline. Governments however, are habitual prodigals, that somehow always manage to find a fatted calf ready sacrificed to their insatiate extravagance; and the Government of one country by the agents of another need not even trouble to inquire if the slaughtered calf was a promising cow. But even Governments must recognise some limits,—whether of their own credit, or of the patience of their people. Governments when they spend, spend other people's money,—mostly in the interests of a dominant ruling class. In democratic countries like Britain the ruling class is a majority of the people. In India it is a microscopic minority, also the more tenacious and exacting of its lion's share in the public expenditure of the state, because it is aware it is a minority. In countries with a national government, even if Government are extravagant in the interests of a ruling class, their extravagance benefits a section, large or small, of the same people. At the worst, it only creates a problem in redistribution of the internal wealth. In India it is otherwise. The public extravagance benefits a small class of foreigners

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only. The salaries and allowances in the public services, for example, are frankly framed to attract, as the Leave and the Pensions rules are avowedly designed to induce, the surplus product of British middle and lower classes to remain in Indian service, even when some of them make no secret of their sympathies. The volume of the Government Service Regulations is a veritable book of revelations,– to those who have been vouchsafed the grace to read the meaning of the written word. We have abolished domestic sateeism. But here is a recrudescence of public sateeism, in which a whole nation seems to commit self-immolation, which, even while we look on, creates problems in public financing, that no mortal daring or intelligence could solve:– the problem of expropriating intangible and impossible rights of perpetual exploitation of an entire people.

This general review of the public expenditure in India will be incomplete without a passing reference to two or three matters, seemingly of detail. Only public expenditure in India has steadily increased, despite protestations to the contrary, has never been effectually restrained. The Home Charges have already been noted by way of a general explanation. But a specific flaw in the technique of financing may be remarked here to round up the tale. Budgetting in Britain is a fine art worthy of the highest statesman. In India it is the work of second grade clerks. The Indian Budget estimates never tally with the realities, or even with the revised estimate. The craft of estimating has never been cultivated under the Anglo-Indian atmosphere. Instead, they have evolved the Oliver-Twist-like method of always asking for more,—more even than they need. If they are lucky and do not spend so much as they fear, why, there would be a surplus, and a chorus of congratulations in the bargain. There is no taxation of unearned increments in India, and so the Indian Finance Minister has to adopt a philosophical outlook and be indifferent alike to the congratulations and the

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criticisms. For, the next turn of the wheel may quite possibly turn the best secured surplus into a roaring deficit. Of course, they can always borrow at pinch. So there is no need to understand the principle that: Sound financing should take from the people neither more nor less than what is just sufficient for the needs of the State. If more be taken, channels will always be found to spend it! And what matters it that such channels may often be more wasteful than beneficial. If less be taken, there would, it is true, be a deficit; but thanks to the Jews in the world's money markets: we can always borrow. It is the most important department of the Government of India to the outside observer; but, on these maxims, the Finance Department must be the easiest to run.

Public Expenditure, then, has steadily increased. But not so the population of India,—at least not in equal proportion, though the people of India cannot possibly be charged with any remissness of their duties. We have, as becomes a civilised people, forbidden Infanticide. Let it, however, be noted as a crude fact of our national statistics that one out of every three children born in India is condemned to death within the first twelve months of its life. This modern infanticide lacks even the old eugenic excuse of race culture by the Rajputs. It is no one's fault in particular. But consider this analogy. There is a druken signalman on duty in a railway cabin. He manipulates the signal levers even while two express trains are rushing to the same point. There is a frightful collision, and a colossal loss of life. Is the signal-man guilty ? The demands of our public expenditure are arranged so, as to leave to the people not even the wherewithal of one meal a day in ordinary times, famine being apart. And public expenditure cannot even have the excuse of drunkenness !

One last peculiarity of the Indian Public Expenditure, and we shall have done with the tale of the torts of finance in India. The steady increase in expenditure has always been justified on the

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score of improved efficiency. We find the central expenditure alone doubling in twenty years, but we see no corresponding gain in efficiency.

"The test of efficiency in administration, particularly financial administration, lies not so much in a mere increase of the total expenditure; nor even in a niggardly refusal to spend on any occasions, but in a well-distributed expenditure likely to benefit all departments and all sections of the community, according to the ideals of the day."

We have already noticed that the public expenditure of this country is conspicuous by its most uneven distribution. The single instance of Mr. Gokhale's compulsory Education Bill in 1911 would suffice to show the chemerical nature of the claim for increased efficiency resulting from increased expenditure. Government negatiAe that measure, because it would, if passed have involved an dditional annual outlay of 3 crores! Mr. Gokhale was modest in calculation, as he was moderate by temperament. He offered, in reply, to give primary instruction, so to say, in instalments, and thereby spread out the cost of the measure over ten years. But Government had not even 30 lakhs per annum to spare for public instruction in 1911! Within five years they were spending 30 crorers per annum more, mostly of course on the army and the debt charges, and offering a free gift of 150 crores to Britain in grateful recognition,– of what ? Within ten years, the total expenditure had increased a hundred crores per annum,– and the only increase in efficiency was the loss of the Third Afghan War, and the need for the Reverse Councils Sales

To sum up, then, the characteristic tors of the Indian public Expenditure, we find it:–

Entirely regardless of the necessity to return the benefit of the outlay to the public contributing for it;

Unevenly distributed as regards the apportionment of the benefit, the bulk of that falling to the share of the foreign element;

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Independent of any considerations of the ability of the people to support its steadily increasing burden;

Innocent of any system in scientific estimating, and systematic provision for the chief needs of the State;

Unconnected with any demands of the number and needs of the people and their moral and materi development.

The Militarist State In India.

The Indian Military Expenditure has already been mentioned as the most obvious example of the misdirected expenditure of the Indian Government; and the impression would be strengthened by a detailed study of the figures. The subjoined table gives an analysis of that expenditure in its component parts, as given in the report of the Indian Retrenchment Committee. The table, however, is misleading to any one unfamiliar with the general features of the financial organisation in this country: for it seems to suggest as though the whole of this outlay was incurred in this country. As a matter of fact, however, more than twenty per cent of that outlay is incurred outside India, and by an authority entirely independent of the Government of India, being 15·06 crores out of a total of 64·81 crores in the latest Budget. The tragedy of the military Home Charges of the Government of India needs and will be given a special treatment later on. But, besides this peculiarity in the presentment of the figures, there is a distinct omission which, unless specifically pointed out, will be utterly overlooked. The Military Budget as shown by these charges does not include any interest on debt clearly incurred for military purposes. The total debt of the Government of India on the 31st of March 1923, as given by the Finance Minister, was 843 crores of rupees, to which may be added some 80 crores of Irrigation debt made over to the Provincial Governments under the "Reformed" constitution and 45 crores of fresh borrowing in the current finan-

428
Kovilpoor Acadamy

cial year. Out of this grand total of nearly 970 crores of public debt, only about 625 crores can, by any stretch of imagination, be at all described as "productive" public debt. As things stand, it is a pure financail fiction to describe any portion of the debt incurred by the Government of India as productive; for no outlay provides the country with assets that could, and do in fact, support their own charges of interest etc. But accepting the fiction for the sake of simplicity in argument, we may regard the remaining 350 crores odd as representing the absolutely unproductive debt,—a magnificent index of the mismanagement of the Indian finances by those who have had the undisturbed control of it for the last hundred years. We are not concerned here with the treatment of the debt. All we need emphasise in this place is: that any portion of the debt of India which cannot by any stretch of casuistry be ascribed to even hypothetically productive purposes, must be taken to have been incurred for the military purpose of conquering India or extending the British Empire on and beyond the natural frontiers of India. The interest on this debt must clearly form part of the Military charges, on the same analogy that has recently prompted and permitted the demand to include frontier railways, constructed solely for strategical purposes, to be comprised in the Army Budget. As the bulk of this debt has been incurred within the last ten years at steadily increasing rates, the net burden thereof may be estimated at 20 crores of rupees per annum. *The total military budget would be,* if the undisclosed interest on military debt and the known deficits on the strategical frontier railways were included, *nearly 90 crores o rupees,* instead of the 64 shown in the latest Budget. This is close upon 70 per cent of the total expenditure of the Government of India, as shown in the latest Budget. We have the unique distinction of being the sole country in the world, which spends so royally upon armaments in times of peace.

We have called this expenditure an utter waste, not only on account of the monstrously disproportionate character of the amounts spent on this head, but also on account of the inadequacy of the return actually derived by this country from the expenditure. India gets absolutely no benefit from this vast outlay. And there is no obvious reason of Indian utility for maintaining such a lavish scale of military services. Take the latter first. There is a common tendency to silence all criticism of the military budget on the ground of policy, or the still more mysterious incantation of efficiency. But what does policy consist in ? Why must India appear as a monster, armed cap-a-pie, and inducing nightmares to the best of our neighbours ? We are, officially at least, at peace with Afghanistan, for the next three years. Unless it is a truce to prepare behind the scenes more effective engines of mutual extinction, we do not see any reason for the maintenance of armaments that cannot but appear a provocation. Guns have a strange tendency to go off by themselves. We do not charge our own Government with bad faith *ab initio* in the matter of the peace with Afghanistan. We trust the existingthe treaty is only a forerunnero more permanent friendly relations. We have, indeed nacc asional rocket, sent up by no one knows whom, about the fell intentions of the much maligned Bolshevists; but, as Dr. Rutherford has pointed out in a recent work on Militarism, we have yet to find an example of good faith and peaceable iutentions on the part of the Imperialistic powers of the old and the new world, at all comparable to the proofs the Bolshevists have given of their peaceful programme of national development. The Bolshevists have no territorial ambitions, even of the type of the "Mandated regions." And fi they seek for an intellectual conversion, the most effective weapon against them is not to perpetuate the most revolting horrors of the capitalist regime, guaranteed by the bayonets of foreign mercenaries. And, as regards efficiency, it is a purely relative term. Without recall-

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ing the painful history of "Efficiency", we seem to have purchased at such a cost in the successive Afghan wars and the frontier troubles, we may yet point out that no country can afford to aim at a standard of military equipment without considering the ability of its nation to support it. There is a point beyond which considerations of mere military efficiency must yield place to the larger considerations of national economy. The soldier must cede to the statesman the right to determine the need and the amount of the military equipment a country need have. No human contrivance can indeed be absolutely guaranteed to be proof against all possible risks. But some risks have to be taken by the most powerful and the best situated peoples. The spending of something like 75% of the total receipts of a national exchequer creates problems of national economy which cannot be suffered to be decided merely by the fiat of the soldier. And in this, we take no account of the further consideration that military efficiency itself is a changing quantity. The fortresses of Liege and Namur were built, after the experience of the siege of Paris in 1871; and yet when the test came, they failed, because the science of offensive tactics had meanwhile enormously advanced. Is it not a clear case of unredeemed waste to spend such vast sums on engines of destruction that may quite possibly be declared utterly inefficient in five years' time ? England can afford, perhaps, to build a Dreadnought at the cost of £2,000,000 in 1905 and sell it at £20,000 in 1920 as srcap iron. But we cannot afford to play at strategical experiments that cost crores to no purpose.

Taking next the question of the gain actually derived from this enormous outlay on an unproductive head, the question is unavoidable as to "what exactly is the purpose of the army in India ?" It is not a little curious that the Government of India have never carefully defined that purpose. Is it that they themselves have no very clear notions on the

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subject ?. The Esher Committee had indeed the hardihood to write: "The functions of the army are to repel external aggression and to maintain internal security". But from what quarter is external aggression to be apprehended, against which India in her own interest and for her own defence must provide ? We have treaties of peace practically with all our immediate neighbours, and even with the remotely possible rivals, like Japan. We are discussing schemes of International Disarmament, and projecting Leagues of Nations, which are advertised to insure the world against War. Are these Conferences, and projects merely eyewash ? Even if the entries in the Grand Imperial Stakes suggest names that imply a doubt as to the honesty of these over-advertised efforts at disarmaments, why should the Indian people be textually and actually libelled by maintaining an army that is utterly out of all proportion to her own needs, and wholly at variance with the views of her own people?

Perhaps the explanation is found in the unconscious admission of the Esher Committee on the Army in India.:—"*We cannot consider the administration of the Army in India otherwise than as part of the total armed forces of the Empire.*" If India is to maintain an army, not according to her own requirements, but as demanded by the needs of Imperial Defence, let us at least have a frank statement like the above. Officially, however, the Esher Report must be taken to be abandoned, in view of the resolutions passed by the Assembly thereon. And yet we still continue to maintain an army at a scale, and with an internal organisation, that cannot possibly harmonise with the bare requirements of the Indian national defence. For consider these facts:

(1) The Indian Army, in the first place, contains an element of European soldiers, which is as expensive financially as it is useless militarily. The Hon. Mr. Purushottamdas in a special note on the Indian Military expenditure observes:—

"*The British element of the Indian Army costs from four to five times the Indian element.* The proportion of British to Indian troops is regulated on the basis of 1 : 2.5, excluding artillery, a proportion which does not differ materially from that laid down by the Peel Commission, immediately after the Mutiny, in 1859. Without discussing the question of the substitution of Indian personnel for British personnel in the Army in India, I will content myself with the statement that the financial aspect of the question lends very strong support to the case for Indianisation of the Army."

Even at the proportion of the Indian and European elements above disclosed, the fact of a European soldier costing four times or more the charges of an Indian soldier, who probably gives a greater military efficiency under the Indian climatic conditions, will make the military expenditure at least doubly more extensive than it need be. An army of 300,000 Indians would cost at Rs. 650 per soldier per annum, 19.50 crores; an army of the identical strength, but with 100,000 Europeans would cost at Rs. 2500 per European soldier, 38 crores. The figures are too eloquent for further discussion. But mere costliness is not the only objection to the 'entertainment' to use the official and appropriate idiom in the matter, of the European soldier in the Indian army. We need not even cast up the racial disadvantage of his presence in the Indian army, as a ground for criticising the existing system. The greatest evil of the present policy of maintaining a proportionate strength of Europeans in the Indian Army is: India can never have the fullest preparation for national defence while this principle endures. As has been said:

"The capacity for the national defence of this country is deliberately kept down, and is in the last resort, limited by the willingness and ability of the British women to bear male children".

Koviloor Acadamy

While the present Government must insist upon a certain proportion of British troops in the Indian army, the problem of the utmost military strength that India can under any contingency command must necessarily be limited by the available surplus of the military man-power of Great Britain. On a conscriptionist basis Britain has a total military man-power of about 4 millions. For reasons of her own economic organisation, Britain cannot be and will not be conscriptionist. She can therefore spare at any time only about 100,000 men for service outside the British Isles, or at least for service in India. The total potential military man-power of India is 35 million. As Britain can never afford to spare 17½ million Tommy Atkinses to serve on the Indian frontier, it follows that under no conceivable circumstances, India can utilise her full available military resources. The result is that while we pay double at least of what we need at all pay for insuring us against outside aggression, we cannot prepare even to the normal extent of our possibilities against the worst eventuality that might befall us as a nation.

(2) It is this same maintenance of the European section in the Indian Army, which must be taken to be responsible for another defect in organisation,—a defect, which, could the army organisation be spoken of in terms of a business enterprise, reveals a striking want of any knowledge of what might be called the economics of defence. India pays the maximum of cost for a minimum of defensive equipment. In every other country, maintaining a considerable Army, two principles of military organisation are studiously observed, which in India are as studiously infracted upon. (a) There must be a distinction between the permanent standing army, ready at any moment to take the field against an invader, and a possible total military strength consisting of the full man-power of the nation. The so called Peace establishment must differ from the possible ability for national defence. (b) As a consequence of the former, over and above the per-

manent standing Army, there must be a reserve, larger by far than the standing army and able if need be to retrieve a disaster affecting the standing army. India has neither a national reserve, nor a separate peace establishment. We have just one army, which, God forbid, if defeated, there would be absolutely no means for national defence even against the most trifling attack. Every British historian of the Moghul Administration in this country, for example, has criticised the policy of a single line of defence consisting of just one large standing army which, if gone, the throne and the people would alike be at the mercy of the rebel or the conqueror. And yet no British statesman in India has ventured to correct this obvious weakness in our national military organisation. And as regards the distinction between the small permanent standing army and an ultimate War Strength after full mobilisation, the pratice was so common with the admittedly best organised military power—it is so obviously economical not to bleed the country white by normal standing charges so as to leave not an ounce of possible effort in them to resist an unforeseen and extraordinary contingency—that we need hardly labour the the point at all. It is impossible to believe that British administrators in India are unaware of this fundamental weakness in their military organisation. Once more, therefore, we have to ascribe the evil to the policy of maintaining a fixed proportion of the European element in the Indian Army, which will not permit of a proportionate and respectable reserve of fighting force being created in India, which will not allow of a differentiation being made between the peace establishment and the possible magnitude of the ultimate war effort in the hour of the true need of the nation.

(3) From the narrowly economic standpoint, also, of actual return from the army we entertain, the European element is not free from objection. Mr. Gokhale pointed out long ago in his evidence before the Welby Commission, in the event of an Indian

necessity conflicting with the Imperial demands, the Government of India have themselves doubted whether they would be able to command the services of the entire British contingency, maintained at the expense of India. And in this we do not include the payment we make for the British reserve of troops. The custom of " trooping season " alone, as it is called, is against our getting the fullest benefit of the British section of our army, in the event of a war breaking out in Europe, at a time when that season is just about to commence. So long as India is a part of the British Empire, it need not be argued at all that the identical circumstances which occasion a war with some power for England will mean a simultaneous mobilisation both in this country and in Britain. But the latter in these circumstances will not be able to spare the small number of troops that are maintained as an apology for the heavy British expenditure on the Navy.

This is not the place to append a list of those petty,- but, from a financial sense not unimportant,- grievances which are indissolubly connected with the drain of the War Office Charges. No Indian Viceroy has quite accepted the War Office point of view, and yet the so-called Capitation and other charges have gone on incessantly increasing. The system of regarding the British section of the army in India as a sort of a loan of British troops to India, is responsible for all that incidental hardship to Indian finance which is comprised in the changes which Britain from time to time introduces in her military organisation. No one seems to have considered that India is neither as rich as England, nor has she as many military or imperial interests as Britain. And yet we must mutely accept and adopt all the changes which England finds it necessary to introduce in her army organisation. Lord Cardwell introduces the Short Service System;—we must follow suit, even though it is utterly uneconomical and absolulely unsuited to Indian conditions. Lord Haldane

introduces the compulsory Insurance System, as part of the social legislation in Britain, and has a whole host of separation and other allowances;—we must again follow suit, though we have for the ordinary civil population not even the provision of a meal day. And the glaring injustice of the arrangement, over and above the fundamental uneconomy of the arrangement is that all these benefits are confined only to the British troops in India. No self-governing colony is required to bear anything corresponding to these charges upon the Government of India.

As a sort of a pendent to the foregoing argument, it may be noted that we have no provision, inspite of spending 70 per cent of our revenues on defensive items, for the naval defence of the country. This has frequently been misunderstood both by the critics and advocates of the existing system. It has been alleged, in extenuation of the heavy army charges India is saddled with, that in part at least these must be regarded as a compensation for the absence of any provision for the naval defence in the Indian budget. Britain maintains a large navy, which, it is alleged is for the common defence of the Empire; and in return India maintains an army, perhaps somewhat larger than her own immediate needs would require, but not larger than would just compensate for the advantage of naval defence which India obtains by remaining a part of the British Empire. This is pure casuistry. Britain maintains a navy primarily and entirely for her own deeds. She has chosen, or is forced to have an economic system in which she finds it awkward to adopt the so-called protectionist regime, for the simple reason that she has no chances of being self-sufficient. She must therefore depend for her very existance upon foreign commerce. She accordingly maintains a large navy to guarantee her open seas in time of war and free commerce. There is no other reason Imperial or insular. There is no room for charity in politics, nor even in

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finance. And the best test of the argument lies in the prompt conversion of Britain to a Single Power standard in her naval preparations, the moment she found herself confronted with American ambitions on the same plane. Were it otherwise, were Britian maintaining her present navy for the philanthropic object of defending the outlying portions of the Empire at her own cost, the navy would be a common Imperial asset, under joint or cooperative Imperial, not insular, control. But while Britain is perfectly agreeable to be idea of the Dominions creating a navy of their own, she shies at the very suggestion of those colonial navies being under any other command or direction except that of the English admiralty. In sober truth, Britain would no more think of using her navy for the defence of the outlying parts of the empire, than Rome used her legionaries for the defence of her provinces, when the Huns and the Goths came thundering at the gates of the Imperial city itself. Britain may. indeed, use her Navy. to preserve her Imperial *amour propre*, and yet call it a use for the defence of the Empire. Britain may and will use her navy to maintain the " Freedom of the Seas" in the British sense of the phrase. But we must never forget the simple axiom of political economy that the skin is always nearer than the shirt. Because Britain maintains a large Navy, it is absurd to ask India to maintain by way of compensation an army larger than her needs, larger than her means. The fiction of the advantage of naval defence obtained by India also needs to be examined more carefully than by a simple reference to the days when the Emden was raiding the Indian ports. Geographically and politically, India is so situated that we cannot conceive of India needing naval assistance from Britain for the exclusive benefit of this country. And, against all probabilities, should India chance to attract enemies from across the seas, she has a sea-board so effectually dominated by the Ghats and the deserts that she may laugh at those who would venture to

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waste powder and shot upon these her natural defences. And as for her maritime commerce, though considerable, it is not, at least in its present character, entirely for her own benfit. Her customers are more interested in keeping open the commerce of India, than India herself. There is thus no ground to regard the excessive military expenditure of India as in any way a compensation for the absence of naval charges in the Indian budget. One might appreciate, indeed, the value of an Indian Navy for scientific and educational purposes. But, while the present overwhelming scale of military expenditure lasts, there is no hope for this ideal being realised.

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APPENDIX A

Army Expenditure

(Excluding Military Works, Royal Indian Marine and Royal Air Force.)

	1922-23 (Budget Estimates).			1913-14 (Actuals.)
	Expenditure.	Receipts.	Net expenditure.	Net expenditure.
	Rs.	Rs.	Rs.	Rs.
I. Standing Army :—				
(1) Fighting services in India proper and Burma.	26,06,08,000	15,000	26,05,93,000	14,50,14,000
(2) Administrative services	3,66,29,000	5,20,000	3,61,09,000	1,29,74,000
(3) Miscellaneous units and expenditure	15,97,000	...	15,97,000	6,86,000
(4) Expenditure in England	6 43,15,000	17,65,000	6,25,50,000	2,16,30,000
(5) Forces in Aden	31,93,000	5,00,000	19,93,000	3,84 000
(6) Forces in South and East Persia	3,75,000	...	3,75,000	...
(7) Forces serving in the Colonies	11,73,000	12,60,000	—87,000	—2,18,000
Total of 1	3681,90,000	50,60,000	36,31,30,000	18,04,70,000

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II.—Cost of Educational, etc., establishments, working expenses of Hospitals, Depots, etc. :—				
(1) Educational and Instructional establishment	1,09,97,000	...	1,09,97,000	52,97000
(2) Army Education	37,92,000	67,000	37 25,000	11,71,000
(3) Working expenses of hospitals	3'24,75,000	1,80,000	3,22,95,000	79,99,000
(4) Working expenses of depots	1,57,86,000	36,73,000	1,21,13,000	41,34,000
(5) Working expenses of manufacturing establishments.	1,16,58,000	90,75,000	25,83,000	2,45,000
(6) Inspection of stores	10.75,000	...	10,75,000	4,07,000
(7) Military Accounts Offices	85,89,000	...	85,89,000	30,10,000
(8) Ecclesiastical establishments	7,70,000	...	7,70,000	4,61 000
(9) Administration of Cantonments	18,50,000	26,000	18,24,000	24,13,000
(10) Miscellaneous	9,36,000	...	9,36,000	3,98,000
Total	8,79,28,000	1,30,21,000	7,49,07,000	2,55,35,000
Add for exchange at Rs. 15 = £1	37,62,000	...	37,62,000	5,19,000
Total of II	9,16,90,000	1,30,21,000	7,86,69,000	2,60,54,000
III.—Army Headquarters, Staff of Commands, etc.—				
(1) Army Headquarters	61,90,000	...	61,90,000	28,56,000
(2) Staff of Commands	30,14,000	...	30,14,000	4,87,000
(3) Staff or Districts and Brigades	93,04,000	...	93,04,000	55,85,000
(4) Embarkation Staff	1,58,000	...	1,58,000	...
(5) Railway Transport Staff	4,86,000	...	4,86,000	13,000
(6) Miscellaneous	4,76,000	...	4,76,000	3,09,000
Deduct recoveries from his Majesty's Government on account of part of A.B.C.	1,96,28,000 —13,20,000	... ...	1,96,28,000 —13,20,000	92,50,000 ...
Total of III	1,83,08,000	....	1,83,08,000	92,50,000

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IV.—Stock account †	2,18,42,000	2,36,40,000	12,02,000	27,70,000
V.—Special Services	1,98,64,000	40,000	1,98,24,000	34,95,000
VI.—Miscellaneous charges and receipts :—				
(1) Indian Troop Service	1,38,86 000	19,50.000	1,19,36,000	29,03,000
(2) Carriage of troops and stores in India	1,20,50,000			
(3) Miscellaneous	27,55,000	96,22,000	95,96,000	36,68,000
(4) Provision for new measures	22,13,000			
(5) Reserve with Government	22,00,000			
Total of VI	3,31,01,000	1,15,72,000	2,15,32,000	65,71,000
VII.—Non-effective charges	9,28,97,000	32,18,000	8,96,79,000	4,68,51,000
VIII.—Territorial and auxiliary forces	1,18,86,000	...	1,18,86,000	32,84,000
GRAND TOTAL	66,07,81,000	5,65,51,000	60,42,30,000	27,87,45,000

* Expenditure in England on stores included in the above statement has been converted at Rs. 10 = £1. We have not been able to obtain information as to the distribution of this expenditure over the various items and it has therefore been necessary to make a lump addition representing the difference between the rupee equivalent of the sterling expenditure at the rate of Rs. 10 = £1 and at the rate of Rs. 15 = £1.

† The figures given in the budget for 1922-23 for total expenditure and net expenditure are Rs, 1,76,37,000 and a minus figure of Rs. 60,03,000, respectively, the latter figure being a credit representing a portion of the reduction of stocks. The figure for gross expenditure includes expenditure on stores in England amounting to £752,400 converted at Rs. 10=£1, whereas in this statement it is converted at Rs. 15=£1.

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The Wastage of the Interest Charges

According to the last Financial Statement

" As the result of the deficits of the last few years and of the war, India's debt has grown from a total of Rs. 411 crores on the 31st of March 1914, to an estimated total of 781 crores on the 31st of March 1923. This figure includes the floating debt and the early maturing debt, of which I have already spoken, but it excludes no less than 63 crores of obligations which, it is, I find, the practice to treat separately from the debt of India, though as far as I can see, those obligations are just as much a part of India's debt, as the rest."

The total of these figures is in round terms of 844 crores of rupees. But the Finance Minister forgot to tell the assembly that this figure is irrespective of the debt of the Provincial Governments on account of the irrigation and development projects, which we may take to amount to another 80 crores—making a gross total of our Government debt, of some 925 crores or more. This, of course, is the sum we have not been able to find for all the extra purposes of Government, from the current revenues. It takes no account of sums spent out of the current revenues which have done little towards the up-lift of India,

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and which, if anything, have added to the net weight of the burden falling upon India. In a recent work on the Indian railways the loss due to the old Guaranteed Railways, and paid out of the current revenues of the country, has been estimated at 4 per cent compound interest, to amount to Rs. 320 crores in round terms. This, though not forming part of the national debt of India, is nevertheless a burden to India, in the sense, that the amount represents the proportionate withdrawal of productive capital from the country.

Taking, however, the figures of the officially recognised debt of the Government of India, we find the charge for it in the last Budget to be:—

Interest on Ordinary debt	Rs.	15,01,13,000
Sinking Funds ,, ,,	,,	2,20,44,000
Interest on Railways ,,	,,	18,77,90,000
,, ,, Irrigation ,,	,,	10,88,000
,, ,, Posts & Tel.	,,	68,28,000
Railway Annuities	,,	5,03,62,000
,, Sinking Fund	,,	49,10,000
Interest on Company Capital	,,	2,22,30,000
Total Charge	,,	45,53,65,000

There is a provision for some 47 crores worth of new debt to be incurred during the current financial year, which, at a little above 5 per cent, may be expected to add another Rs. 2½ crores to the debt charge, making a *total, net debt burden of some 48 crores of rupees per annum,* on a total revenue of Rs. 130 crores, including the doubled salt duty. This is of course over and above the provincial debt charge on account of irrigation works, which aggregates Rs. 4 crores odd in round figures.

In the Budget figures the total cost under Debt Services is given at Rs. 35·36 crores; but this figure does not take into account the sinking funds, either on ordinary debt or even on railway account, in the forms of annuities; nor does it include the interest on the so-called other obligations, which, as the

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Finance Minister himself has admitted, there is no justification for counting apart from the ordinary interest charge. There is in the Budget figure also a deduction from the ordinary debt charge of Re. 4,00,15,000 on account of the Provincial Governments, which we have also not included in the above total, but which, on point of principle ought to be reckoned in the total debt charge of India. If this figure is added, the total debt burden would be over 52 crores of rupess, or a wasteful charge of forty per cent on the revenues!

According to the accepted practice of the Government of India, the whole of the fifty crores odd, we pay by way of interest, is not regarded as wasteful owing to their philosophic outlook on the "Productive Debt." Apart, perhaps, from the Irrigation Debt of the Provincial Governments, there is not an item in the debt charge which could, under a strict consideration, be regarded honestly as productive. The Railway Interest and Sinking Fund as well as Annuity charges we shall have occasion to discuss more fully in another connection. But the remark may be ventured here that the railways taken collectively are not, and have never been, truly productive, even in a merely commercial sense of showing a balance of receipts over expenditure. From the beginning of their construction to the date, when, about the commencement of this century, they appeared to have become a paying concern, they had cost the public exchequer a vast sum of money. In common fairness this ought to be regarded as a first charge. Unless and until that charge was liquidated in full, the railways must not be considered as profit-earners for the state. Even apart from this fundamental weakness in railway account-keeping, there is the further drawback, that as the accounts stand, no provision is made for the ordinary wear and tear, or what in commercial parlance is spoken of as Depreciation. If the railways are really commercial ventures, let the success or failure be measured also on commercial principles. And strict

commercial accounting would never have declared the railways to be profit-earning until they had made adequate provision for ordinary depreciation. But following without accepting the current Government pratice, and reducing the twenty-seven crores of railway debt charges, allowing for the 2·5 crores of receipts under the head of interest, and taking into account the new debt charge budgetted for during the current year, we find the *total dead-weight charge of Rs. 20 crores in round figures, for which absolutely no return could be or is expected.*

The following critique of the Indian debt-charge is from a memorandum submitted to the Indian Retrenchment Committee. That body, it may be noted, prepared its report after the Gaya Congress had recorded its resolution for the repudiation of the debt of the Government of India. It was, cosequently, frightened in all probability from touching upon this delicate question, beyond saying:—

"It is apparent that the heavy increase in the dead-weight charges for unproductive debt must form a great burden on the tax-payer. We have already observed in our report on railway expenditure that further capital outlay on the large scale contemplated, on railways that are being worked at serious loss to the State, can only be justified if it can be satisfactorily shown that the net earnings of railways, to which it is applied, will be increased sufficiently to cover the additional interest charges."

But because the Inchcape Committee of capitalists failed to consider the means for the reduction of the debt charge, the following account of its origin and extinction will not be the less readable:—

The Origin of Indian Debt

"The public debt of India—both the supposedly productive and the admittedly unproductive—as it exists to-day, is the creation of British rule in this country. The previous governments had to live necessarily within their income, as much from ignorance of the nature and the use of the public credit as from

the impossibility of putting it to proof in a well ordained manner, even supposing the earlier financier understood the character and aim of public credit. It is at once a compliment and a criticism against British rule that the Indian national credit has been organised so well as to raise a debt of 900 crores odd, on the total annual national income of Rs.900 crores at most. The East India Company's regime was characterised by a systematic infringement of all canons of sound finance, its borrowing always taking place whenever its revenues failed to keep pace with its expenditure. **The total debt at the close of the Company's era was Rs. 63'555 crores, every pie of which was incurred for the conquest of India.** On the transfer of the Government of India to the British Crown in 1858, this debt, together with a payment of £12 million by way of compensation to the East India Company proprietors, was saddled upon the Indian Government. *India, has therefore, paid her own conquest and made a net present of her Empire to the British Crown.* In strict justice India could not have been called upon to pay this debt. As England had conquered India for her own benefit, and while she has been enjoying the benefit of the conquest, she should in fairness have paid the cost of that conquest. But it is perhaps now too late to rake up this old sore of flagrant injustice. The Ordinary debt, which may be taken as equivalent to unproductive debt, was rightly regarded as insupportable, and therefore steadily reduced, as the following figures show, in the years before the WAR:—

Year.	Debt in crores.	Year.	Debt in crores.
1888	Rs. 109'5	1908	Rs. 56'1
1893	,, 97'5	1913	,, 37'5
1898	,, 105'2	1914	,, 19'2
1903	,, 88'7	1915	,, 3'3

"**The ordinary, unproductive, floating, and funded debt has increased, during the nine years after 1914, from less than 20 crores to nearly 300 crores,**

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all due absolutely and exclusively to the European War. As India has always been made to pay for the wars on her frontiers, even though they were waged in British Imperial interests; as India has even been made to pay for conquests for Britain within her own frontiers, the justice of the increased war debt has no foundation at all. True, a portion of this debt is due to a "gift" made by India to Britain. But the gift was neither freely made by the representatives of India, nor were they consulted *economine*, before the decision to make the "gift" was arrived at. Indian representatives had not even the right to acquiesce in such a procedure and merely associate themselves even passively. Such a "gift", therefore, made without the consent or concurrence of the donor, cannot possibly be held to be binding in honour or equity or law upon the donor. In questions of an alleged "gift", the arguments of *quid pro quo* have no place; but even if for the sake of argument we consider the constitutional reforms to have been a sort of consideration for the gift, inadequacy of the actual reforms, the great betrayal of the Punjab massacres, and the all-round attempt at exploitation of India for the benefit of her European servants, makes that argument utterly invalid. We have already pointed out, besides, that there is nothing in the history of the relations between India and England, which could support such a ruinous "gift" from India. And though another part of this debt is incurred to meet the increasing permanent charges in the military department, the increase is so clearly the result of a change of stand-point as regards the objects and purposes of maintaining an Indian army, that we think the other portion of the debt is also undistinguishable, essentially speaking, from the War debt. We consider, then, that the debt of Rs. 150 crores making up the War gift, plus the excess over the 1914 standard of the military budget, amounting to over 150 crores or more, should not, in justice and economy, be charged upon India.

Koviloor Acadamy

We are, indeed, perfectly aware of the seriousness of our proposals. We recognise the force of solemn public engagements to bond-holders of the Government, and admit the gravity of suggesting expedients or devices for securing justice to India without impairing the integrity of the Government of India, or the value of its engagements. But the course we have suggested in general already, and would elaborate it more fully still further, rests as much on the ground of justice as on considerations of political expediency. *The contribution of India in winning the War is not limited by the "gift" above mentioned.* She raised and employed for active military service nearly a million men, of whom over half—552,000—were sent overseas. Including non-combatants, the total contribution of India has been 14,57,000; of them 943,000 have served overseas, with I,06,594 casualties. India subscribed heavily to the loans raised in England, particularly investing large sums in the British Treasury Bills out of her Paper Currency Reserve, thereby not only weakening her currency position, but diliberately creating the temptation which in 1920, in less than six months of Reverse Councils sales, cost us 35 crores. In strictness this loss ought to be made good by the party who had received the benefit of such assistance, and for whose sake our currency policy was arranged. *But we do not make any demand for such a restitution*, not because we doubt its justice, but are unwilling to rake up a most unpleasant chapter of grievous mistakes and their bitter memories. We do not even ask for a restitution of the sums actually paid by India since 1917-18, by way of interest on a debt, which we should never have incurred. Finally we make no mention of the numberless restraints on our trade which prevented us from getting as much as our produce had a right to expect, from the fortuitous combination of favourable circumstances raising the world price. No one has made, perhaps no one can make, a calculation to show the loss India suffered owing to war restrictions. But the follow-

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ing figures of our exports give a total of nearly 2000 crores of export trade, which, assuming that the war restrictions served to depress the price against India by 5 p. c. on an average,—and that after the war the exchange policy penalised the Indian exporter in a still worse manner—we come to an actual loss suffered, of nearly 100 crores. This is an extremely modest and moderate estimate, since it does not and cannot take into account those indirect methods penalising the Indian exporter, e. g. of restrictions of Bank credit, and rise in exchange, and reduction of Council sales, since 1916. But even this modest figure, taken along with the loss suffered by the sales of the Treasury Bills to meet the ruinous Reverse Council drafts, and the amount paid by way of interest and sinking fund on the so-called contribution of 150 crores, make up a total loss of 180 crores as follows:—

Year	Export.	In crores.
1914-15	Rs.	182·17
1915-16	,,	199·48
1916-17	,,	247·31
1917-18	,,	244·89
1918-19	,,	255·32
1919-20	,,	332·75
1920-21	,,	265·93
1921-22	,,	219·01
Total	Rs.	1946·86

(The 1921-22 figures are for 11 months only.)

	In crores,
Loss due to war restrictions on exports ...	... Rs. 100
,, ,, ,, Reverse Council Sales ...	... ,, 50
,, ,, ,, Interest and Sinking Fund Charges on 150 crores 6 p. c. for 5 years...	,,30
Total ...	Rs. 180

"This is the least figure of loss actually suffered by India, over and above the contribution in men and money she has made for winning the war in which she had no personal interest and benefit. We do not ask for a compensation for this loss; and do think that there ought to be no difficulty in adopting the expedients we have suggested, for summarily reducing the burden of the unproductive debt, as we think best.

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Means to Reduce the Ordinary Debt

"The fairest and noblest, the truly Imperial and strictly honest means would, of course, be for *Britain to take over that portion of India's debt which has been incurred on her behalf and for her benefit.* Relatively speaking, it would be less than a flea-bite, a total of some £ 200 million at the most, which in a country having a debt of nearly £ 8000 million, would make no real difference. Britain is seriously considering—perhaps circumstances will compel her to consider—the total writing off of her claims, aggregating some 1700 million sterling—or more. Britain has had to accept the *fait accompli* of the Russian obligations having been repudiated to the tune of £ 567·92 million; and we see no reasonable probability of the other countries—France, Italy, Belgium, Roumania, Greece, Portugal—paying their debt of £ 1134·444 million—or even the amount equal to the one owed by the United Kingdom to the U. S. A. Under these circumstances would it be unreasonable for India to demand, in view of the present state of her finances, that her national debt equal to £ 200 millions be either taken over by Britain, (we have a sterling debt of £ 240 million which could be well taken over by Britain) or, in the alternative, India be allowed to write off that debt? **Sooner or later some policy of cancellation of international indebtedness would have to be adopted,** in view of the world's finances and of the crying need to restore the crippled nations of the world. Whenever that policy is adopted, and debts are repudiated or cancelled, the ultimate sufferers will unavoidably be the private individuals, who, trusting to the credit of the State, have lent beyond the paying capacity of the borrowers. We are indeed not unaware of the degree of injustice involved in our suggestion—at least while we accept the ground plan of our present commercial ethics for the organisation of society. But we think it is a kind of a surgical operation which will have to be adopted to save the world from a greater ruin and a more lasting collapse. And it is precisely

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for this reason that we think it better for the Britannic Government to take over this portion of our debt; and deal with it from the point of view of ultimate reduction as they think best. Britain is a sovereign power free to adopt any measure; from increasing income taxes and making a Captial Levy, to a complete cancellation of the debts due to her own nationals,—which, for obvious reasons, it would not suit India to accept for this country.

"If England should refuse to shoulder this portion of Indian debt incurred for the benefit of England, the latter must at least support the Indian Government in drastic measures for a summary reduction of the debt. There are three alternative measures, which, even without adopting the honest socialist principle of a frank repudiation in toto, may be tried by the Government of India, singly or concurrently, for a summary reduction of its unproductive debt.

"A. As Indian finance is organised to-day, the Government of India cannot levy even its ordinary income-taxes from that section of its creditors who hold the sterling debt. £ 236 (now 260 or more) millions of our sterling debt is absolutely immune from the Indian income tax. The Britannic Government deducts its income tax from the interest of its bond-holders, whether resident in Britain or not. Why should not the Indian Government be allowed the same privilege? The income from public debt is "earned", if the phrase can be applied in this connection without a mockery, in the country which has borrowed the money and pays the interest. By every principle of international jurisprudence, India ought to have the right to tax her creditors resident in England and holding her sterling debt. Britain certainly levies her income tax on every income earned within her jurisdiction, whether the owner of that income is her citizen or not. Why should not India have the same privilege? At the present rate of the Indian income tax of 18 pies in the rupee, or 9¾ per cent,

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the net tax on the interest on our sterling debt would amount to £ 1·125 million or Rs. 1·68 crores (now over 2 crores). This accession to our revenues would, without raising taxation in the least, help to reduce our defict at a stroke, and enable us to fund our public debt with far more facility, economy and success. It is, accordingly, imperatively necessary that the Government of India levy its income tax and deduct it from the interest paid on its sterling debt.

"B. Another alternative, which may, and in our judgement, ought to be tried concurrently, is the extension of the income to those sections which under existing legislation, escape from it. *The agricultural incomes, beyond the subsistence minimum exempted ordinarily from the income tax, ought to be taxed at least at rates applying to other classes of income,* and if not as a permanent feature of our financial system, at least until the present excessive and unproductive debt is paid off. Agricultural incomes, particularly in regions where the government revenue has been permanently settled, are at present most unfairly exempted, though these incomes are for all practical purposes *unearned*, and therefore, the most suitable subject for taxation. It is impossible to say precisely how much of the agricultural income now escapes taxation. But assuming that 35 crores of land revenue represent 10 per cent of the total net income from land—by no means an extravagant estimate—and that half of it—Rs. 175 crores represent the income of ryots living habitually below the minimum standard of subsistence, there is still a total of about 175 crores which escapes taxation. Without increasing the rates of taxation on unearned incomes, without allowing for super-tax on incomes above Rs. 50,000 a year, but taking only the tax at its present figure of 9 ½ per cent, we could expect another increase in the revenue of Rs. 16·4 crores from such incomes. The total increase in income tax alone without

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increasing the rate, but only extending the tax to incomes which are now unfairly exempted from taxation, would bring an accession of revenue of Rs. 18 crores a year. This may be applied to a rapid reduction of the ordinary unproductive debt, which, if not taken over, as it should be, by England, would nevertheless be paid off exclusively from Indian resources in less than 15 years, if only England supports the Indian government morally, in a simple act of distributive justice, by way of a fair apportionment of the burdens of taxation.

"C. The **last alternative** that we would suggest for a rapid and summary reduction of our unproductive public debt, is the adoption of a **system of compulsory funding and converting of the debt into lower interest-bearing securities.** We regard this as a mild form of capital levy, specially, which can be made applicable only to those capitalists who have benefited by the increased public borrowing. To institute a capital levy of a universal and general character would, under the present circumstances of India, raise up innumerable and complicated questions of finance and politics which are perhaps best avoided. **But the reduction of the debt is an imperative necessity if we want to rehabilitate our finances on a proper footing.** A country with a total income of not more than 900 crores a year at the most, cannot possibly support a debt of Rs. 900 crores, nearly 300 crores of which is dead-weight of unproductive obligations. The total net public revenues of the central, provincial, and local governments are nearly 225 crores—if not more—or about 35 p. c. of the gross income per head of the people,—**a charge far more burdensome in reality than the** same proportion of taxation on an income four or five times as great. The compulsory reduction of all debt incurred during the war, to a uniform rate of 4 p. c. would make a saving of about 8 crores a year. And if the measure is not found acceptable, a direct, compulsory levy of from 10 P. C. to 25 P. C. accord-

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ing to the amount of the bonds held by an individual or corporation, may serve the same end. **In any event the ordinary unproductive debt must be wiped out in the shortest possible time in order to guard against the imminent possibility of extreme nationalist politicians embracing the radical solution of a complete repudiation of our national debt.**

"On our recommendations, if adopted, the debt service charge would be as follows:—

	In crores.
Total Gross charge	Rs. 40·00
Less Productive Debt charge	,, 20·00
Total Ordinary charge	Rs. 20·00
Special Interest Receipts	,, 18·00
Saving from Compulsory Conversion	,, 8·00
Special Levy on Bond-holders	4·00
	30·00

"These 30 crores may be regarded *either* as a special addition to receipts, ear-marked for paying off, first the floating debt and then the funded debt, by open purchase in the market, or by payment on maturity from accumulations of these special receipts. Or they may from the beginning be regarded as not revenue but capital receipts, though derived from revenue sources; and be funded and accumulated to wipe off the debt as and when it falls due. In view of the very lax control of the Indian Government in matters financial, we think the latter alternative would be preferable, though the former would be as effective. In any case **the condition must be imperatively laid down that the Government of India incurs no debt at all, until its ordinary budget is in equilibrium.**"

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The Drain

Ever since the late Mr. Dadabhoy Naoroji published his work on "*Poverty and Un-British Rule in India*," the Indian public opinion has unanimously considered the drain of the "Home Charges" of the Government of India as an absolute, unmitigated loss to India. The question has a political side which cannot utterly be ignored. The disbursement of the amount sent away by way of the Home Charges, being entirely outside the control of the Indian Government, they have always been unable to introduce any scheme of large scale economy in the public finance of the country, which would not suit the book of their superiors "at Home". This peculiarity cannot be gainsaid by the most bigoted apologists of the present Government; but they have tried, in exchange, to show that India receives an equivalent return from these "Home Charges"; and that therefore the Indian public is wrong in abusing them. An attempt is being made below to examine in some detail the charge and the counter-charge.

It must, however, be noted at the outset, that the total drain of the resources of India is by no means limited by the amount of the visible "Home charges". There are invisible items, not a whit less effective than the regular avalanche of the Government

charges. We shall take these in turn. Let us first examine the visible, obvious, political charges. According to the latest Budget estimates the Home Charges of the Government of India were:—

Item	1921-22 Account	Revised Budget Estimate 1922-23	1923-24
	Rs.	Rs.	Rs.
Direct Demands on Revenue.	13,10,192	43,68,000	51,60,000
Railway Revenue Account	15,49,59,189	15,39,98,000	15,56,94,000
Irrigation Account	37,535	...	...
Posts and Telegraphs	...	63,52,000	40,87,000
Debt Services	5,28,97,161	7,37,22,000	9,12,56,000
Civil Administration	1,04,89,092	1,30,94,000	1,14,60,000
Currency Mint & Exchange	63,69,469	1,12,41,000	65,69,000
Civil Works.	2,90,003	1,94,000	1,44,000
Miscellaneous	3,72,32,539	3,76,86,000	3,57,33,000
Military Services	18,35,02,557	18,20,61,000	15,06,57,000
Total	46,22,99,698	48,27,19,000	46,07,67,000

These, it must be repeated, are the charges on account of the Government of India alone, the corresponding items on behalf of the Provincial Governments having being omitted. Taking the Provincial total to be roughly 10 crores, we get a total of some 55 crores of rupees per annum.

Against which of these items can it be said that India receives a *quid pro quo*? The interest on debt is in the above table recorded under two heads—the ordinary debt services, and the railway account. A fiction of administrative convenience has maintained the railway debt to have been incurred for productive purposes. The only justification for such an attitude is that railways were expected, to be likely to yield sufficient profits to bear their own charges of operation, as well as interest and sinking fund. They have not done so in fact. A fuller examination of this fiction must be postponed to the supplement dealing with the railways. But mention must be made here of just one fact. The railways have not only not paid their own interest charges and accordingly been a burden to the public revenues; but, because

of the Government having been committed so largely to the success of the railways in a commercial sense, they have never permitted themselves to consider alternative and cheaper means of transport, more suitable to the needs and ability of the Indian trader and producer. The transport industry is never productive by itself. It only adds to the prices of commodities by carrying them from where there is a glut to where there might be a scarcity. The railway transport business is essentially a large scale enterprise which flourishes, and can flourish, only in a community of large scale enterpreneurs, whether in agriculture or in industry. Inspite of the higher working charges, the American rail-road transportation rates are lower on an average than those of India, because America can command large through hauls on a long distance, while India must expect wagons to remain idle at way-side stations for days together, and then be run empty or half-loaded at most. But because the State in India has been committed to the tune of some 600 crores on the railway enterprise, there is no reasonable hope of the essential uneconomy of rail-road transport in India being perceived, even if we make no allowance for the objectionble practice, which the principal guaranteed railway companies had adopted, of selecting their directors from amongst the retired high servants of the Government of India. Apart, however, from this amount, there is an annual outlay of 30 crores of rupees which brings no material return. A Government apologist has, indeed, tried to argue, in regard to the charge of the total debt account, that:-

"England's credit enabled India to borrow money much more cheaply than she could otherwise do, and as a matter of fact India can and does borrow money much more cheaply than Japan, which pays interest at 6 to 8 per cent on internal loans, and 4½ to 5 per cent on foreign loans...India borrows at 3½ per cent. The gain to India from England may therefore be expressed as a reduction of 2½ per cent in the rate at which

she has borrowed capital. An additional 2 per cent on India's total debt of £ 267,000,000 would represent an additional charge of £ 5,340,000." (*Morrison*)

But this argument is double-edged. It is, in the first place an unpardonable confusion of thought to speak of *Indian credit* being *supported* in the money markets of the world by *British credit*. As a matter of historical fact, British credit has never directly supported or guaranteed a single pie of Indian debt. The Anglo-Indian financiers have gloried in the idea of making India's finances absolutely independent of Britain. We are not concerned here with the wisdom or justice of such an arrangement. But it is by itself a sufficient answer to those, who, like Sir Theodore Morrison, would put forward such a balderdash, and call it an economic argument. And even as regards indirect gain, it is more than doubtful if, side by side, while India was borrowing in the central money markets of the world, there have not been instances of other countries, lacking in the inestimable advantage of the British dominion over them, borrowing at actually cheaper rates in the same market ! If India should be invited to consider this highly imaginative benefit on the credit side of the Indo-British connection account, may not an Indian publicist retort by a thousand other instances, of much greater historical accuracy, under which the British connection has obviously cost us crores, for no conceivable benefit to the people of India. If the tale of the toll in man and money of the Afghan wars and the Frontier troubles were honestly compiled; if the story of the sufferings incurred by this country in China and Africa and France and Mesopotamia in imperialist adventures—in which she had neither part nor lot, which she did not understand and could not be consulted about—were compiled, in common fairness the debit side would show a huge balance—far outweighing such apocryphal, and, at best, trumpery items, as the one instanced above on the credit side. In fact there are instances of many a South American

Koviloor Acadamy

Republic, with a proverbially uncertain government, borrowing in the common money market of London, simultaneously with India, at terms in no way materially different from those of India—the Indian Government having debarred themselves by their own initial mistake (to call it no harsher name) of offering lavish gurantees to the railway capital—from taking the fullest advantage of any temporary ease in the money market. And in this charge, we take no account of that other important consideration: that a government sleeplessly intent upon securing the benefit of the governed, would have been always alert to reduce the charge of an unproductive debt, whereas the Government of India have as invariably adopted the practice, whenever their budget failed to balance, to borrow; and add to the unproductive burden of the generations of India yet unborn. It is an acme of simplicity, but not of financial statesmanship, that a government should always fall back upon borrowing to make both ends meet, whether the deficit is caused by a famine, a war, or a failure of international exchanges.

The interest and war office charges, included in the "Home Charges," thus make no material return to the people of India anywhere, proportionate to the drain they engender. The indirect gains,—well, the less said of them the better for all concerned! There are items, however, in these charges which, under the new regime of divided finances, do not occur very prominantly in the most easily accessible figures, but which are none the less substantial, and which cause the greatest possible difference of opinion. These relate to the pensions and leave allowances of that section of the Indian Public Services, which is not commonly domiciled in this country. Is it really a *quid pro quo*? No doubt it is a duty of all human employers, — and governments ought to be model employers for all classes of their servants— to provide for the old age of a servant who has devoted the flower of his life to the fortunes of his master. But the analogy does not hold at all

Koviloor Acadamy

points, when applied to the foreign regiments of the public services in India. They have not recognised,—and, in the nature of things it is impossible for them honestly to recognise,—that all government servants are the servants of the people of the country; for they have been brought up in traditions which regarded the British servant in India as a benefactor of the people of India. Even while they serve actively, their best interests are not in the land of their service; and so their best energies are devoted rather to their demands for improvement in their lot, than in the execution of their duties to the utmost of their abilities. Vocal members of Indian Civil Service have always claimed for their corps the distinction of being the best equipped bureaucracy in the world. But, in honest comparison of actual results, they must yield place to the German, or even, for the matter of that, to the British Civil Service, in point of efficiency. But granting that their pay while they serve actively, is a return for work done, and their pension on retirement is a recognition of a social duty which must be commonly extended to every working citizen, there is still the question: 'Would not the amount spent in this manner have remained in India to fructify Indian industry and thereby and to the Indian prosperity, if, in place of these foreigners, there was an equal number of Indians employed in these posts?' A wit has said that the qualifications expected of the highest public officers everywhere in the world is the simplest. They must know that they have to sign all documents coming before them, and that the signature must be in the right hand bottom corner. There's not to reason why, there's but to sign and strive for their pay and privileges. But even supposing more formidable qualifications were expected, it is impossible to believe, without being guilty of the most flagrant act of seditious libel, that after a century of British rule in this country we have not evolved men who could be equal to the enormous strain of public office in normal times. Sir Abdur Rahim, in his famous minute of dissent on Public the last Services Commission, observed:—

" The points of view from which the majority of the Commissioners and myself have approached the question of the employment of Indians, are substantially different. The question they have asked themselves is: What are the means for extending the employment of Indians. But the proper stand-point, which alone in my opinion furnishes a satisfactory basis to work upon, is that the importation of officials from Europe should be limited to cases of clear necessity; and the question, therefore, to be asked is: In which services and to what extent should appointments be made from England. "

And a greater than he, the late Mr. Gokhale, had declared, some twenty years earlier, that the appointment of Europeans to public posts in India, which could well be filled by Indians, constituted a double wrong to the people of India. While the foreigner remained in active service, he took the bread out of the mouth of an Indian of like standing and abilities; and when he retired to his own country to draw the pension allowed him, he impoverished this country of its surplus capital to the extent of his pensions bill. What can we add to this ?

But the greatest glory of the Home Charges remains still to be noticed. They have entailed a wrong, which, in comparison, makes the mischief already noticed, like a paiah's hovel before a Pharaoh's Pyramid. Because the Indian Government are commited to pay the Home Charges in sterling, they must always arrange their currency system to suit the most convenient payment of these charges. So long as the Indian currency maintained a stable ratio with the foreign medium of exchange in which these obligations had to be met, there was indeed, no great difficulty. But the moment the ratio altered, the problem became one of life and death for the Government. If the rupee declines in exchange value, in comparison with the pound sterling, by a single penny, they would have to raise three crores more in taxa-

Kovilogr Acadamy

tion to meet the aggregate Home Charges. The rupee at 16 pennies would cost 45 crores to pay the Home Charges of £ 30 million; the rupee at 15 pennies, would cost 48 crores. The rupee was until 1873 equal normally to 24 pennies; it declined in twenty years by fifty per cent. The Home Charges were in no way reduced, but rather increased. Their total rupee burden was therefore more than doubled. Government sought for a policy of stabilisation for the rupee—not as a national government would certainly have done under identical circumstances—for a reduction and avoidance of the home charges. The rupee was stabilised at an artificial level, higher by 40 per cent than its intrinsic worth. The result was curious. With Home Charges of say £ 15 million per annum, the pupee-cost to the Government, at 12 pence to the rupee in exchange, would have been 30 crores; at sixteen pence to the rupee the cost to the government was 22½ crores—a saving of 7½ crores. But now take the other side of the shield. The Indian exports, which, be it noted, are the ultimate source for the ment of these charges, were at the time in round terms £150 millions. The rupee equivalent received by the Indian people would be, at 12 pence the rupee, 300 crores; at 16 pence the rupee, the equivalent received by them would be 240 crores. For a saving of 7½ crores to the Government, there was, thus involved a loss to the people, of 60 crores ! And even on these terms the "saving" may have passed muster if the government had learnt their lesson, and taken steps to cut down the element in their financial organisation productive of the greatest weakness. Instead, however, the Home Charges were doubled in less than a generation! Further comment is superfluos.

The above few points relate only to the obvious political drain carried on under the direct auspices of the Government in India. But there are other items, not an iota less important. Before the War, year in year out, the trade retruns of India showed a regular balance of a handsome excess on the side of the

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exports, for which, however, we seemed to be receiving no substantial return. Even after an allowance was made for the "Home Charges," which, naturally would be paid out of these excess exports, there remained a balance to account for, which has never been satisfactorily explained by the Government apologists and official statisticians. It is accordingly, difficult to say, with any degree of exactitude, what that unaccounted balance amounted to, and what it actually represented; but the following explanation is worth considering. The total Indian trade, exports and imports included, amounts now to some 500 crores per annum; and would be in the neighbourhood of not much short of 450 crores a year on an average for the whole of this century. At ten per cent,—by no means an exagerated estimate,—the freight, insurance and other incidental charges would amount to some 45 crores of rupees. Not one of these services is performed by Indian agency in any degree worth mentioning. These forty-five crores are therefore as much a drain as the Home Charges, or more, in as-much as the Home Charges have the obvious political excuse, while these frankly economic burdens have no excuse whatsoever. We are, no doubt, paying these sums for services received; but there is no reason why an identical service should not be rendered by Indian agency so that the gross sum involved in these charges may remain in India. This is an aspect of the present political dispensation in India, which the best Englishmen, with the best of intentions, do not understand. The predecessors of the present Government have often been compared with the present, and generally to the disadvantage of the former. But one merit they must be conceded to have had, which the British administration of today does not possess. They may have been foreigners in origin; but they were soon assimilated, and became naturalised natives of India, as much as any other. Their plunder and extortion and taxation all remained in the country. The British Government might be infinitely superior in many

details of modern administrative machinery. But it lacks just this one essential. It is and has always been foreign, alike in personnel and in sympathies, in outlook as in measures. The Cotton Exise Duty on Indian manufactures, frankly imposed in the interests of Lancashire, may supply perhaps the most glaring example of this fact; but the absence of any effort in a century of undisturbed mastery of the country to develop those agencies of trade and economic development, like banking and a mercantile marine of the modern type, are no less important instances of the same *genre* from the standpoint of national prosperity. Ordinarily indeed, we fail to see this side of the drain, for the imported commodities are inclusive of the freight &c. charges, while the exports are without any such charges, being recorded in official statistics according to their valuation at the point of embarkation. This means, that the imports we receive are not really worth as much as they are recorded to be worth, but only about 90%; while our exports are going to cost the ultimate consumers of these commodities about ten per cent more than their recorded values at the Indian point of exportation.

A similar but more obvious drain is to be found in the charges of the foreign capital invested in India. The foreign capitalist in India has always been looked upon by our present Non-Indian Government as somewhat in the light of a benefactor, every effort being made to provide every possible facility for attracting him. And yet consider—what little reason there is for such a treatment! The foreign capital does not come out to this country by way of charity through the Mansion House Funds, though there may have been such occasions also. Only, as against one such help received by India, there are dozens of instances,—without taking into account the gift of a hundred million sterling recently "Voted" by the Indian Government in aid of the of the British Exchequer—in which Indian noblemen and princes must have been bled to help Non-Indian charities. I would not pity those Indian people, for I do

not recognise any frontiers in philanthrophy. But one cannot help pointing out that the foreign capital invested in Indian industries is in no sense of the term a benefit to India, or a charity to its people. The capitalist receives more than his fair share of the "reward of industry"—to use a much misunderstood term in its vulgar connotation. According to the statistics of the various stock exchanges in India, such fereign capital, —reckoning only the Joint Stock Companies, and even then taking their share capital at the nominal value only —amounts to some 150 crores, which at 6 per cent per annum,— a ridiculously modest estimate,—drains the country to the tune of some 9 crores of rupees every year. We receive, indeed a *quid pro quo*, in the shape of having new industries developed in this country. But it would be only a perfect "*Ingenu*" who could regard the additional employment available to Indians in the Assam Tea Gardens or even the Calcutta Jute Mills as a real benefit to the country, and a contribution to its riches. And, mark the calculation. It does not take into account the earnings of unregistered firms and private individuals, whether professional men or mere "*Commercanss*," who find this counrty a great "*Kam Dhenu*" for their exclusive délectation ! It is impossible to estimate the drain due to these sources; and, as we would not offer a guess which could not be supported at pinch by the most unimpeachable authority, we shall refrain from making any such wasteful effort. But there is another omission, which need not be ignored quite in this way. Of the companies which are doing a roaring business here, not all have been registered in this country. Their securities, therefore are not quoted ordinarily on the Indian Stock Exchanges. But, according to an official compilation the capital alone of such concerns,—which, like the exchange banks and great shipping companies, are, though doing business in India, registered outside India,—amounts to over 500 crores. At 6 per cent, this would earn (?) a return of some 30 crores per

Kovilloor Acadamy

annum, and India must provide this margin also in her excess of export, along with the other sources of drain already enumerated.

The total drain, then from all these visible and invisible, political or economic sources amounts to some 150 crores per annum, of which 55 crores only are purely political "Home Charges", while 45 crores are quite invisible, being "Rewards" for shipping, banking and iusurance service in connection with the transport of our merchandise to and from this country. The thirty crorers of return on foreign capital invested in India but held by companies &c. registered outside India, and another 15 crorers of similar charges on companies registered in India but mainly or wholly controled and operated under Non-Indian auspices, are difficult to calculate exactly, particularly if allowance has to be made for the earning of unregistered factors. But the estimate, such as it is, is borne out by the steady balance of our exports which, however, does not seem to have materially benefited the country. It was an Englishman, who, giving evidence before a Parliamentary Committee, made this astounding calculation:

"It is a curious calculation to show that estimating the sums of money drawn from British India for the last thirty years at *three millions* per annum, it amounts at 12 per cent compound interest, to £ 723,994,971. Or, if we calculate it at two millions per annum for fifty years, it amounts to the incredible sum of £ 8,400,000,000."

This was in 1840. To-day the calculation would have to be made on the basis of an average drain for the last sixty years, at not less than 25 crores per annum, which, even at 8 per cent compound interest,—the rate Government themselves charge to the Imperial Bank for permiting the latter to afford assistance to Indian trade by emergency currency,—will amount to a sum which a mere economist must dispair of calculating accurately. He need only quote, by way

Koviloor Acadamy

of conclusion, the verdict of another Englishman of a by-gone generation (when it was not usual for them to boast so much as has been the fashion lately, of doing justice to this country), on the real nature of these Home Charges. He was primarily speaking of the East India Company's investment, but that corresponds in all essential particulars to the modern Home Charges.

"The greatness of this investment has been the standard by which the merit of the company's principal servants has been too generally estimated. This main cause of the impoverishment of India has generally been taken as a measure of its wealth and prosperity. Numerous fleets of large ships, loaded with the most valuable commodities of the East, annually arriving in England in a constant and increasing succession imposed upon the public eye, and naturally gave rise to an opinion of the happy condition and growing opulence of a country, whose surplus productions occupied so vast a space in the commercial world. ... ... But the payment of a tribute and not a beneficial commerce to that country wore this specious and delusive appearance."

Koviloor Acadamy

The Extravagance of the Salariat.

Among the many sins of commission and omission that the present rulers of India will have to answer for, not the least important is that of providing unconscionably high salaries for public service, and then reserving that service practically for a microscopic minority of their own country-men. The Indian Retrenchment Committee have unearthed or exhibited some striking lights and shades in the growth of public expenditure in India, not the least noteworthy section of which is that which relates to the Civil Administrative Charges. By specific figures adduced for the purpose, the Committee came to the conclusion that:

"Whereas the total staff employed has increased by nearly 10 per cent since 1913 (from 474,966 to 520,762 in 1922-23) *the cost of pay and allowances has increased by 101 per cent* (From Rs. 20,20,68,000 in 1913-14 to Rs. 40,74,96,000)".

The Increase may be absolutely much greater in the military services, but the civil administrative cost is not a whit behind; in fact it is relatively greater. We are not in this supplement concerned with the specific, and rather narrow, problem of the comparative increase, and so need do no more than note the Committee's finding that the rates of pay and allowances are based upon the recommendations of the Public Services Commission of 1914—15; but that they have subsequently been increased in view

of the immense rise in prices. It is regretable that the Committee merely note the information they were given, without themselves checking its accuracy: "That the average increase, after allowance is made for the abolition of the Exchange Compensation, did not exceed 20%". We are here concerned with the absolute as well as the relative costliness of the public service in India. The scale of salaries is about the highest in the world. There is no officer of State in the British Empire including the Prime Minister and the Lord Lieutenant of Ireland, who costs so much as the Viceroy of India. The following estimates of the real cost of the Viceroy to India is compiled from official sources:—

Salary of the Viceroy:	Rs.	2,50,800
Sumptuary Allowance ,, ...	,,	40,000
Contract Allowance ,, ...	,,	1,56,000
Staff and Household ,, ...	,,	4,71,100
Tour Expenses ,, ...	,,	3,65,000
Band, Bodyguard, and Personal Staff ,, (Charged to the Army)		4,36,000
	Total ,,	17,18,900

The Viceroy in round terms costs us over 17 lakhs of rupees per annum. The President of the United States costs about £15,000 per annum, the President of the French Republic about £ 4,000, and the Prime Minister of the British Empire £ 5,000 plus a free house in each case. Are these dignitaries less important, less powerful, less respected than the Viceroy of India? The salary seems to vary inversely with the utility.

It is not, of course, the fault of the Viceroy alone that the Indian public salaries have been fixed so disproportionately high, whether we consider the ability of the people to bear such charges or we think of the more objective test of the work done by such dignitaries or functionaries. From the very outset a fundamentally wrong idea has governed the fixing of public salaries. Otherwise there can be no explanation of such absurdities as that. We have Managing Governors of the Imperial Bank, who are paid Rs.

10,000 per month with allowances &c., whereas the Governor,—one only—of the Bank of England,—with duties at least a hundred times more responsible and onerous than those of our Managing Governors of the Imperial Bank are ever likely to be called on to perform,—is paid only £2,000 per annum ! I can think of four possible explanations why the salaries in this country should have been fixed quite so high as they are; and I find not one of them is now tenable, or ought to be permitted to be mentioned without subjecting the author to the charge of *Lese Majeste*. These Are:

(a) Prevention of corruption by offering initially high salaries to avoid temptation to the public servant in a responsible capacity;

(b) Compensation for the suffering involved to the European in serving in India;

(c) Guarantee of efficiency in return for a competitive wage offered to the public servant for technical duties;

(d) Recognition of fairness and impartiality.

Of these the first explanation is historically true. The Servants of the East India Company were notoriously dishonest. The earlier reformers from Clive to Canning imagined that they could purchase honesty by offering high salaries. The spokesmen of the Indian Civil Service in the nineteenth century made a chorus in proclaiming that that service was a wonderful body of the elite and the perfect and the honourable and the impeccable. As there was no one to say them nay, the world took the merits of the public servants in India at the face-value given to them by their own fellows. If the secret archives of many a Native State like Baroda could be made to speak by some Marconi trick, the music would be not entirely a symphony. But admitting the contention that the reformer, by granting high salaries, has succeeded in inducing a measure of honesty and rectitude, previously conspicuous by its absence, we find it difficult to reconcile with that

Koviloor Acadamy

belief some facts of recent official publication. The Acworth Committee on Indian Railways makes a round charge of bribery against railway administration which has not been disproved or even controverted by the official administration reports on the Indian Railways. Before the Inchcape Committee the High Commissioner made allegations, which, though couched in more polite phraseology, nevertheless reflects unpleasantly on Provincial Governments and their stores purchasing officers. The trial of a Mr. Church is impending, while the real truth of the so-called Indian Munitions Board Case and the retirement of Sir Thomas Holland has yet to be published. These are cases—a few of them—which affect almost every department of the Government, and every branch of service, so that the *Corps d'elite*,—the Indian Civil Service proper—cannot quite be excluded from the implications. The Indian bureaucracy has always disliked the Lawyer in Indian politics,but at least the lawyer has a professional code of honour, which, even if it be not observed in isolated cases, provides a standard of rectitude which the "businessman" in Government posts has yet to learn. The best advocate of the "Business Government" in Britain was the convict Bottomley. The best practitioner of the idea was Mr. Lloyd George. England cannot be said to have yet quite done with the "Business Government" while some of the actors in the once famous Marconi drama continue in the highest places under the British Crown. But the latter have either been publicly exonerated or at least learnt their lesson enough not to be found out again, even if they have a relapse. In India, however, the "Businessman" in Government has not yet evolved a code of honour to guide his behaviour in public posts of trust and responsibility. There are no ethics in business, beyond honouring one's signature to a bill of exchange. By implication this principle absolves them from any obligations when no signature need be affixed. Lord Fisher—first Sea Lord at the Admiralty for a long time—tells the story of his oil shares, which, when he became President of the Royal Commission on oil

Engines. he had to sell, and which, when the Report of the Commission came out, went up to twenty times the price they had been prior to the appointment of the Commission. He frankly regrets the loss; but it would have been exceedingly surprising if he had acted otherwise than he did. There is a sort of *Noblesse Oblige* for the public servant, which, inspite of distressingly high salaries we pay, we do not seem yet to have inculcated sufficiently in the minds of some of those who ought to have known better. Had the moral been understood of stories like those of Lord Fisher, there would have been fewer pronotes in the hands of Marwaries. But without digressing too much let us take note that while originally the salaries of the principal posts in India were no doubt fixed with half an eye to make them large enough to avoid temptation, at present one would think it an undeserved libel to the public servants of India that they need such stimulants to keep them honest. And if it be not a libel, if it be a fact that dishonesty would intensify if the salaries were lower, let us at least know the fact to be so. Let us see the colour of the goods we are purchasing. Let us be under no misapprehension about a "heaven-born" public service, which is freely advertised as being selfless in the extreme.

The second explanation was also real once upon a time, or at least there was a grain of truth in it sufficiently large to permit, by a natural exaggeration, the mountain that is was eventually magnified into. When there was no Suez Canal, and no steam-ships; when there was no telegraph with or without wires; the hardships of alien officers in India can be imagined. If they accepted the hardships, they might as well be paid for them. It is true they sometimes posed as missionaries who sacrificed themselves for the good of India. But even that pose was intelligible if not quite honest. But whatever may have been the value of this explanation in the past, it is no longer true to-day. The European in the Indian public Service has himself

to blame, if to-day he feels the hard-ships of a service in India. There is no possible case for a special compensation on that account. He is removed for a time from his kith and kin, we grant. But may not he be asked, why he does not make the country of his service the land of his adoption ? Even temperature is no excuse, since he can have Simla and Dargeeling and Mahableshwar without number in India itself. We have no objection to his remaining a caste apart, but he cannot in justice or economy ask us specially to compensate him for remaining aloof and apart from us. Besides the electric fan there are other alleviations to make his alleged hardships more tolerable and less compensatable. The leave rules and pensions arrengements are of the most liberal—nay lavish—kind. Under the new rules, the leave available to a public servant is practically doubled; and Government seem to have enforced the ideal that every public servant should take as much leave as possible, to recuperate his moral and mental forces enervated by tropical residence. The leave period is, of course, on full or partial pay; and the country suffers from having to maintain an extra force of at least 40% to permit public servants to take their leave without serious prejudice to the service. We must thus have 140 men for work that may well be done by 100. Finally, the European servant in India cannot be suffered to urge to-day that he is unique or that he has a producer's monopoly for our public service. There are plenty of Indians who possess at least as many qualifications as the average run of the European public servant in India—with the exception perhaps of the European's fluency in Indian languages—to take up the posts, should the European feel it a hardship to serve in India without special compensation.

The third reason has never been true, and therefore, has always been advanced every time a revision of pay &c. was undertaken. The average

English public servant in India has never been better than Joe Sedley,—and he has often been much worse. Sir John Lawrence, when Viceroy of India, once signed a minute on the State Railways, which was a masterpiece of reasoning and technicalities. The minute had been prepared by Sir R. Strechey; and that Viceroy was honest enough, at least in the solitude of his own private office, to wink to Sir Richard and observe; "Wouldn't they think me at home a devilishly clever fellow after this Minute". Against the honesty of one such great heart, we must set off the constitutional dishonesty of a thousand, who go on taking to themselves, without turning a hair, credit which rightfully ought to go to their head-clerk. But the fact is, from the earliest time so much has been expected of the chief functionaries in India that they simply don't know anything of their real duties. If all that the Imperial Gazette tells us so solemnly the district officer is expected to do, were honestly and conscientiously and personally attempted by the officer in question, he would die in a fortnight. The man must be a fool or a Superman even to pretend that he possesses the marvelous combination of faculties that is officially expected of him, and for which, apparently, he is paid; and Nietzche has proved by his life and teachings that these two classes are not far asunder, even if we had not the high authority of Napoleon to hold that genius is first cousin to lunacy. In comparison to the results achieved by the other great Civil Services of the world—in Germany and America, in France and Australia and New Zealand, in Japan and even in that home of muddlers, Britain herself—the Indian public services have achieved nothing to be specially proud of and to be specially rewarded for. It was perhaps an unconscious confession of mediocrity at best in our services, that whenever Government needed a special spurt in efficiency, whenever they created a new department or a new office, they could not find men in India suitable enough

for the task, and so had to import fresh cargo. There have been, indeed, revisions of salaries on the special pretext of improving the efficiency by increasing the emolument. But it is only in India that such logic or psychology could be tolerated. You cannot possibly increase the efficiency of proved inefficients simply by adding to their screw; and none but idiots could have been taken in by such transparent camouflage. Whenever an increase in salary has been granted, specifically to improve efficiency, without scraping the old lot entirely, there has been committed either a day-light robbery upon the people of India, or an unpardonable libel on the old tried servants of the State in India. Lord Curzon, indeed, seemed to be once on the eve of erecting an altar to "Efficiency"; but even he had in fact to succumb to the sacred official creed of "Buggins next please", with the result that we had a Hailey for three years at the head of the finance department to gamble away in crores of Indian money, without even a shadow of blame attaching to him.

The fourth verse in the incantation has a peculiar interpretation. The European was supposed by the Europeans to be peculiarly qualified to govern India, since he knew nothing of India. The late Lord Salisbury is reported to have said: "If you want thoroughly to misunderstand a country, go to a fellow who has spent twenty years in it." The Anglo-Indian now gets a hearing in high places on things Indian, somewhat on this principle,—and with very much the result predicted by his late Lordship. But originally the idea seems to have been that the less one knew of a country and its peoples, the better was one fitted to govern it, as the more certain one was to guarantee impartiality. It is a moot question in political science if impartiality can ever be a compensation for ignorance. But granting, for the sake of argument, that the unconcern of the Englishman, as between the Hindus and the Mohammedans, was a special qualification for government which neither the

Hindu nor the Mohommedan could claim, the qualification has now ceased to exist. The impartiality now needed is totally different. The quarrel is now not between Hindus and Mohammedans, but between Indians and the English. If impartiality in this posture of affairs is really an indispensable item in the governors, the only solution would be promptly to dismiss all the present British officers in India in every capacity, and import Germans to fill their place, or Japanese.

Since none of the reasons once alleged for such high salaries now exist or could be admitted, and since we cannot possibly afford in view of our economic resources the extravagance, we must even disallow that portion of the salaries as may be in excess of the market-price under conditions of free and fair competition. The ideal of the artist,—Art for its own sake, and not for the sake of the money it might bring in,—needs very much to be infused in the public service of this country. But under the domination of the commercial civilization we have now been submitting to, it is perhaps not likely that this noble ideal would even be given a trial. It may be remarked in passing that the highest public service in Britain herself had, until quite recently, been always gratuitous. We cannot, then, dispense with salaries altogether, until at least our social ideals and scale of values have altered fundamentally. But that is no reason why we must not alter the amount of these salaries and their rates, in conformity with our national capacity to pay. Says the Indian Retrenchment Committee:

"In fixing the present rates it was laid down that 20 per cent of the pay of officers would be subject to revision in 1923–24 *either upwards or downwards*, in accordance with the rise or fall in the cost of living."

The italics are ours, but they imlpy a wholesome principle of personal employment, which, because it is not specifically stated, ought not to be excluded

from considerations of national economy. The sanctity of contracts is like the Tenkerville Ghost. Even if its existence be admitted, it cannot hurt if you would not bother about it. And then, no one ever has talked of the sanctity of contracts whenever it was a question of revising the contracts *in favour* of the European public servant. The Government of India gave a special Exchange Compensatien Allowance in the nineties—at the cost of grave financial dislocatiou to themselves,—to the European servant of the State. Where was then the idea of the sanctity of contract ? The salaries were all liberally revised in 1915–16 according to the recommendations of the public services Commissions, and still further increments were granted in 1919. Where was then the story of the sanctity of contracts? If contracts with public servants could be revised in their favour, parity of reasoning would imply that they might also be revised *against* them, once in a while. The work of the Inchcape Committee thus remains still to be achieved, for the problem is not merely of the percentage rise, but rather of the absolute insupportability of the modern salariat in public services.

A gentleman had been judicially separated from his wife. She had been very naughty; and after the judicial separation, he went abroad to forget the rather pungent taste of her naughtiness. She died during, not because of his absence. A mutual friend wired, asking the husband: "Shall we burn, bury or embalm her ?" Prompt as electricity could take it, came the reply; "Do all three. Take no risks!" We must follow the same principle in considering the remedies by which a radical and wholesale revision of the salaries of public servants in India in favour of the State and in conformity with the economic capacity of the community could be carried out. In the first place, translating the maxim of Sir Abdur Rahim, already quoted in another connection, we must lay it down as the first principle

Kovilool Acadamy

of public service organisation in India that: **there is no room for any European or non-Indian in any capacity or any post in India.** This is not racial animosity but economic analysis. It is conceivable we may not be able to do a few things quite as well for this country as the Englishmen can do; but it is equally certain we cannot do a great many more things worse than they do. An Indian gentleman, let us call him the Hon'ble Mr. H.....l, was giving evidence before the recent Frontier Inquiry Committee in the Punjab, and his evidence angered the All Highest,—Indian, not the German edition,—personage. When bidding good-bye to the guests at a garden-party, the All-Highest, observed to the Hon'ble Mr.H.....l: "When are you coming to give me lessons in governing the frontier?" The irony was pointed but wasted, since the undaunted Hon'ble unexpectedly answered: "Whenever you like Sir". The All-Highest was furious, and made the taunt: "Shall we make you the Governor of the province?" "I accept" said the Hon'ble, as he was not at all afraid to go and govern in his own Province.

The moral of the story is obvious. The European in India has had his day and played his part. It may rest between him and his God to answer for what he has done here below in his hour of power and plenty. We would not judge him for the past that is beyond recall if he would be wise and remember:

"Not heaven itself upon the past has Power,
What has been has been, I have had my hour."

But the same reasoning which would make us generous for the past will force us to be careful for the future. It is merely the Christian virtue of common prudence. We repeat there is now no room for Englishmen in any post, in any place in this country; and a fifty per cent Indianisation of the services, and the camouflage of gradual association

and devolution will not serve the turn. As already noted, we would not recall the past, and therefore will not expose the fraud of a *gradual fifty per cent admission* of Indians under the new regime in the public services; for the accepted interpretation of that provision seems to be not to reduce the number of Europeans in the services but to increase the posts, and so increase the Indian element at a more than reduplicated cost to India.

While we must make the ground-work of public service reform on the principle of "no foreigners" we must also raise the superstructure on equally sound and honest maxims. Public service is, alas, not yet a proper field for the artist's principle of 'service for the sake of service'. We must therefore guarantee a living wage to *all* servants of the State, no matter what their rank or status. The policy of a national minimum must begin with the public services; and the next revision of salaries will have to pay very careful attention to the claims of the clerks and peons and chopdars and all that host of subordinate staff of public departments whose emoluments are a disgrace to any country that calls itself civilised, and much more so when other functionaries are paid at such wastefully lavish rates. If then, there is room for an honest improvement in the lot of the public servant at the bottom, there is an even larger field for retrenchment at the top. We cannot accept Sir R. N. Mukerji's suggestion about introducing a racial differentiation in public emoluments. The Inchcape Committee have done well merely to record without endorsing it. But because political conditions of today will not permit us to accept the suggestion, we cannot be blind to the intrinsic merit of the principle. The Indian must certainly be expected to serve on much less than is now allowed to those who may be pardoned if they have no other but the interest of their own pockets to think of. If our first principle be accepted and the Public Service in the country be wholly Indianised, there

Koviloor Acadamy

I absolutely no reason why a downward revision of salaries be not simultaneously effected. Any salary of beyond Rs. 50,000 a year is an utter waste; and all salaries between Rs. 5,000 and Rs. 50,000 have an element of luxury, which must be eliminated, if necessary, by a sharply progressive Income Tax. Further economies may be effected, if need were, by reducing the staff and the departments; but I doubt if the real needs of national economy would be served by restricting the scope of the activities of the State in India. Reduce super-abundant departments and super-numerary staff by all means. But for what remains give human conditions of service, and infuse a new zest for the service, which is not to be measured by the amount of pay and leave allowances a public servant can wrangle out of the accountant-general. We need to create a new code of honour for public service in the country. But not one of these reforms can possibly be carried out until we have accepted and enforced the axiom that India must be for Indians.

Koviloor Acadamy

Mismanaged Public Utilities

For several years past the Government of India have been beset in their financial administration with unending deficits, that the best wits of officialdom seem incapable of remedying. It seems like some ghost that knows no rest, being condemned to haunt Finance Minister after Finance Minister to an untimely and un-dignified retirement. And yet, had those required by some inscrutable dispensation of Providence to conduct the administration of India, known the A B C of their trade, the task is by no means so difficult. The superstitious might be pardoned if they fancy the so-called "Reforms" to have been undertaken in an evil moment, since, from the day of their inception, nothing seems to go right with anything that relates to matters Governmental. Everywhere there seems to be an undisturbed reign of bungling, and while the patient seems to be lying under the menacing shadow of death, the doctors are unable to agree upon a prescription. And yet the remedy is neither impossible nor desperate, though, when they whose hands seem to be unhallowed touch it, the remedy itself appears to change into a curse. A proper management of the public service, utilities, like the Railways and the Post Office, could very easily have been made to

Kovilpur Academy

minister to the needs of the public exchequer, if only those who manage it are acquainted with the rudiments of their business. To them the Railways and the Post Office only suggest a further turn of the screw, a further addition to the charges of the meagre service these mighty instruments are made to render. No wonder then that they are unable to make these excellent tools to respond; for the workman knoweth not his trade, and is not worthy of his hire. In the following pages an attempt is made briefly to show, where the Railways and the Postal Administration have bungled, and how they could have been made to swell the surplus, instead of adding to the wail of the deficit.

Speaking in the Legislative Assembly on the 1st. of March last, the present Finance Minister observed:—

"Taking, however, the figure of 781 crores which I have given, of the total debt of India, on the 31st March 1923, we find that 557 crores is classed as productive and 224 crores as ordinary or unproductive debt.....We must not forget that the yield on that part of our productive debt, which is invested in railways has not been sufficient in the past two years to meet the interest charges."

The Finance Minister is misinformed, or, to use the time-honoured camouflage of polite society, he is lacking in terminological exactitude. The railways in India have never been productive. They were constructed from the beginning under motives which could not permit them to be exclusively commercial adjuncts to a busy industrial community, whose success is to be judged from a strict system of accounting. The Indian railways were first constructed under the impulse of our last War of Independence, known to Anglo-Indian historians as the Mutiny of 1857; and as such the logic of Lord Dalhousie had an added sting in hastening the construction of the railways to link up the principal centres of British India, and thereby facilitate the movement of troops,

should the ambition of another Native power endanger the supremacy of the British Government in India. The Native Indian powers were, however, carefully emasculated, so that the need for railway construction for a frankly militarist purpose *within* the country seemed somewhat antiquated within a decade after the first trunk lines were projected. But by that time it was too late to alter the alignment, and, of course, too late to revise the extravagant terms under which the Guaranteed British Companies had been induced to "invest" capital in railroad construction in India. We shall probably have to refer to the Guarantee system of Indian railway construction later on in another connection. Here it is sufficient to point out that it made economy in railway outlay nobody's task. We have had our railways at a cost per mile of track which will compare very honourably with the most costly constructions in the world; even if they do not win the Blue Ribbon of costliness. The average cost per mile of construction, without counting the price of land which is given free to the railways, is about £ 12,000 in round terms.

But though the military factor began to be a back-number in the late sixties of the last century in regard to the alignment of the railways in the interior of India, it is not even now altogether absent as a factor of first rate importance dominating the Railway Budget of India. Says the Railway Administration Report for 1920-21 (Para 6. p.8):-

"Of the 298 miles opened in 1920-21 more than half the length (189·50) is represented by a military railway, and the balance is made up of a few short branches financed mostly by Indian States and branch line companies."

The Military Railways do not, in the aggregate mileage, constitute, perhaps a very formidable figure, being somewhere under 1800 out of 37000 miles according to official calculation. But viewed in their proper

financial perspective they show quite respectable proportions. In the single North-Western Frontier line there was a deficit in 1921–22 of 4·05 crores out of a total loss of 9·53 crores. The Legislative Assembly mustered courage last year to ask for a separation of accounts for the military or strategic railways, and the crediting or debiting of the profit or loss on that account to the Army Department. But Government are not such ninnies as to show the Army Department to be as costly as it really is. That portion of the resolution was therefore negatived. Finally, where the military factor has not vitiated the railway finance of India, there was another, and equaly unproductive factor at work, though not equally condemnable. The horrors of the first famines after 1858 turned the heads of the first officers under the Crown, appointed for purpose of Famine Relief. They thought the rapid construction of railways was the only means for combating famine, forgetting in their enthusiasm' poor, honest, deluded men!—that a railway might bring food to the stricken area but cannot create an ability to buy it in the people afflicted, if their resources had been otherwise depleted. Lord Curson's regime saw the greatest emphasis on railway extension, and also the greatest famine of the century or of history. It is impossible to say that railways have effectively killed famine in India, though under that influence their costliness probably increased quite appreciably.

Having been planned and laid out under influences not exclusively commercial, it is little wonder that the construction of railways in India displays very scanty attention to economy in outlay. As we have already noticed, the first enterprise in this direction was attracted by the promise of a guaranteed return,—a stipulated return on the capital invested, no matter whether or not the project was really profitable. As construction was entrusted to companies whose profit had been guaranteed in advance, they were not going to shoulder the thankless task of being economical;

and so, whether we look at the weight of the steel rails employed, or at the gauge or at the, rolling stock provided, we find attempts being made to reproduce all the facilities and luxuries of the richest country on the face of this earth, in in the poorest country in the world. The Government officers, told off to superintend the constructional work, were frankly incompetent to do the job, which, but for the fatal tradition of omniscience enshrouding the Indian Civil Service, ought never to have been thrown upon them. There was thus a merry-go-round of an initially high Guarantee which annihilated all incentive to economy followed by a recklessly expensive layout and construction, and governed ultimately by factors in which the commercial possibilities and needs of the venture were at most of secondary importance. The system of accounts alone proves this contention. All the losses that the Indian railways have in the past sixty years and more occasioned to the Indian Exchequer, have yet to be paid up; but no body seems to think it necessary to present the bill, before permitting interested parties from lauding the commercial success of the Indian railways. An enterprising ex-officer of the railways themselves has recenly worked out that this amount, accumulating at compcund interest at 4 per cent per annum, would by March 21st 1920 amount to Rs. 346,05,22,128; and if to that we add the interest as well as the losses in the three following years, the total of the bill would be in the neighbourhood of 450 crores of rupees. No commercial concern which had a shred of self-respect, would dare to call itself profitable, much less venture to raise additional funds on the assurance that it was an earning concern or until at least it had liquidated in full this enormous debit. Instead, however, we have the Finance Minister adding a mild N. B. at the end of a paragraph to remind his hearers that the railways had not been paying for the last two years! And the Indian Retrenchment

Koviloor Acadamy

Committee oraculating in a most unexceptionably pontifical manner:—

"The real question to be decided is whether, when capital is so urgently required by some railways for remunerative purposes, the country can afford to borrow large sums of money at the present high rates for expenditure on railways, which are not only unable to earn 5 per cent on their present capital, but which have to be subsidised by the general tax payer. We consider that further expenditure on such railways can only be justified, if it can be satisfactorily demonstrated that this expenditure would increase the net earnings on the railway, sufficiently to cover the additional interest involved."

But for the fact that we in this country have to be thankful for every small mercy shown to us, we should have thought there was no need for the Retrenchment Committee to be quite so old-maidish in pronouncing their condemnation of the railway policy prevailing in India.

(a) Not only the Indian railways have been constructed at least as much for military as for commercial reasons, but in working out and representing their actual financial position, strict attention is not paid to the true principles of commercial accounting. *The railways are admittedly a wasting asset. And yet absolutely no provision is made for depreciation.* The profits are arrived at by just deducting the ordinary working expense and the interest on debt, without any provision for wear and tear or depreciation. In the years therefore, when owing to war exigencies renewals and replacements had to be kept down, the profits necessarily appeared to be very high. But that did not make the Indian railways truly profitable. The laws of physics and mechanics asserted themselves inspite of the Government of India; and in the later years the railways once more show a formidable figure on the wrong side of the balance sheet. If proper, adequate

provision had been made for depreciation from the beginning, the railways would not, perhaps, have shown the profit that they have been made to. And by parity of reasoning, very probably money would not have been spent on a really unproductive asset at the rate at which it has been, in a frenzy of railway construction; and the debt would not have grown in the manner in which it has increased. *The actual financial state of the Indian railways, properly scrutinised, does not exhibit any cause for regarding them, even now after 75 years of their history, as a really profitable venture en masse.* **Without going the length of suggesting that no more capital sums should be spent on railways in future for extension, it may yet be suggested that capital outlay from borrowed funds on railway extension or improvement should be entirely suspended, until the railways by themselves alone show a distinct margin of profit ascertained according to the correct principles of commercial accounting, and until the normal state of public finance in India shows a satisfactory position.**

(b) The same conclusion is forced upon us by a detailed consideration of the specific figures of railway working. The analysis of fuel consumption per mileage run, or the cost of repairs for work done by the rolling stock, as shown by the Inchcape Committee comparatively in 1913–14 and 1922–23, is an eloquent testimony to the inefficient management of our railways. It is impossible to better, except perhaps by pointing out that while the service rendered by the railways to the community has hardly improved in the interval at all, the working expenses have more than doubled, being 29·36 crores in 1913–14 and 68·05 crores, according to the Budget Estimates, for 1922–23. For those who have to be silenced by the plea of efficiency—shade of Lord Inchcape, what an efficiency !—purchasable at increased expenditure, the following suggestion for

Koviloor Acadamy

economy in the railway administration seems to be the only way out of the impasse:—

We, therefore, suggest that the only real substantial relief in this head would be obtained, if capital outlay on new railway programmes is rigorously restricted at least until the desideratum mentioned in the previous paragraph has been realised.

(c) Not only are the working charges on the railways growing out of all proportion, thereby proving, if the growth is really unavoidable, that the margin is not at all great enough to justify us in regarding the railways as profitable commercial asset; but the increment in gross earnings, after a series of additions to the rates and surcharges, is far from justifying any hope of further increase in receipts through this means. The last Finance Minister had estimated, that by increasing the rates and fares on Indian railways by 25 per cent all round, the railway receipts for 1922–23 would be increased by 12 crores to 99·5 crores in the total. But traffic did not–could not–would not respond to the syren charms; and his successor in the Ministry had to record a loss of 7·50 crores in the Revised Estimate for 1922–23, while the Budget Estimate for the current year is taken at 95·57 crores. The last few weeks' traffic returns do not afford any reason to believe that even this relatively modest estimate would be realised. The only explanation is that railway rates in India have reached a point at which they are positively acting as a deterrent to traffic. They are at a point at which, in the technical language of economics, they give rise to the Law of Diminishing returns; so that **every increase in the rate charged would result in an actual reduction of the receipts.** The same thing put differently would suggest that railway enterprise in India has reached a stage, at which, judging from the results, **there seems to be no further room for profitable expansion in that direction;** that

Koviloor Acadamy

therefore, the moment seems to have arrived when we must call halt to the reckless outlay of capital borrowed at ruinous rates of interest; and that we must consider all possible means of effecting economies in the internal working of the railways in order at least to balance their account. It is curious how the authorities responsible to prepare these estimates should have overlooked such an obvious elementary rule of economic science that even a monopolist cannot go on raising his price beyond the limit when the consumer would fail to respond in proportion. The State in India is no doubt a monopolist in the matter of railways. The one great justification of public monopolies in services of such great public utility is, that in framing its charges, the State would aim, not so much at making for itself the maximum of monopoly profit, but rather secure the *maximum use* of the monopolised service *at a minimum of rates* consistent with the demands of public finance. The State in India has framed the railway rates, or acquiesced in the rates framed by the managing companies, not at all on the lines which would realise the common aspiration using the specially low railway rates as an effective indirect encouragement to Indian industries and inter-provincial trade. But overlooking for the moment this grave defect in the railway rates policy of India for financial reasons of paramount importance, and conceding for argument that their present level may be justified to secure our lost financial equilibrium, we must yet record our emphatic condemnation of the authorities which led the Assembly to believe that an exactly proportionate increase in revenue would follow a given increase in rates and fares. And, in connection with the increase in the passenger fares, our criticism becomes all the more poignant when it is recalled that by far the largest patron of first class railway travel are the Government themselves. We do not think that passenger returns for 1922-23 would

Koviloor Acadamy

show a proportionate increase of revenue when the accounts are finally made up and published. We think it is highly probable that the increased fares, especially as regards passenger traffic of the lowest class, would actually act so as to reduce that traffic and depress the revenue from that source. And as regards the superior class of passenger traffic, particularly the 1st and 2nd class, even if the increased fares result in an increased return, it would mean no corresponding benefit for the public revenue. For the Government would have to allow, by way of travelling allowance to their civil and military officers, their commissions of enquiry &c. double the usual charge. The railways may thus show an increase. But the Government finances would show precisely double that figure by way of increased expenditure under travelling allowances. We may be charitable and refrain from suggesting that this machiavellian measure has been deliberately designed by interested officers to increase their own emoluments under specious pretexts of an arguable addition to the revenues. But we cannot ignore the unavoidable inference that those authorities, who were responsible to frame these estimates, were careless or negligent or ignorant enough to overlook, distort or fail to realise the clear significance of their suggestion. We shall have more to say on the subject of travelling allowances later on. But here we may observe that the grave scandal connected with the abuse of these allowances will never be remedied unless the Government abandons the antiquated system of "double first" and substitutes a scheme of special passes to be used only when the individual himself travels, and on public business. As an example of official irony, let us note in passing in this connection, that the Acworth Committee on Indian Railways solemnly advised: "A general and substantial increase (in rates,) is overdue" because forsooth the Indian

railway rates were the lowest ! Had this committee of experts ever heard of the report of another expert—Sir T. Robertson—of some 20 years ago, who found the Indian rates *more costly* than the American, in some cases the difference being as much as 100 per cent. Luckily the Inchcape committee did not oraculate on this point, and so we are spared the spectacle of another expert (?) opinion.

(d) The general conclusion of the foregoing arguments that borrowing of capital for outlay on Indain railways should be suspended pending the restoration of equilibrium in our finances, is further supported by two other considerations of financial technique. India has to borrow to meet her ordinary revenue deficit. Now, if the sum to be borrowed is further increased—needlessly as we think—by capital outlays, and if, as is the fact, the market we can borrow from is strictly limited, there is no alternative but to offer progressively generous terms to our yearly new creditors. This, of necessity, depreciates our other securities and most unnecessarily penalises our older crediters, who, being mostly trust-funds, charitable institutions, widows or minors have not had the promptitude and intelligence to avail themselves of the offers for conversion; and who are consequently suffering most seriously an avoidable injury. But, quite apart from this special pleader, which the State should not ignore, the obligation to borrow on progressively more disadvantageous terms ties down the hands of the State against all future economy by converting a dearer into a cheaper debt. The 7 per cent Sterling loan of 1921, though the worst offender in this regard, is, generically speaking, not the only example of its kind. We cannot but condemn a policy of public borrowing which results, not only in a progressive deterioration of the position of the State as debtor, and the consequeut heavy depreciation in the earlier securities; but also engenders a permanent or

Koviloor Academy

long term mortgage of all national resources, without benefit of the Equity of Redemption.

(e) The other point to be considered specially in connection with railway borrowing is, that here we have an asset, which is not only necessarily depreciating, but which is unavoidably exposed to other financial risks on account of the possibilities of progress in inventions, rendering our present stock and equipment obsolete and unprofitable. If the State is committed unduly to maintaining a given condition of railways owing to its having spent disproportionately large sums upon that asset, the inherent conservatism of the Government would assert itself and debar such a country from introducing the latest improvements solely for financial reasons. The result is that the estate becomes progressively less valuable. A revolution in transport may result by improvements and economy in our later day road vehicles; or may be due to economies in aerial transport making that alternative a formidable rival to the railways, or may come about by improvements on the railway system itself by electrification or other economies. But in so far as these changes involve an outlay of capital, the State, which is already burdened with heavy commitments of capital liabilities, would be inevitably conservative, and would therefore lose. We believe that the extension of railways, as shown by the mileage, and considered in relation to the industrial position of India, is sufficiently large to permit our turning the attention to cheaper forms of alternative transport.

Costly in construction and costlier still in operation, the Indian Railway Service has been handled in a way utterly inconsistent with its commercial possibilities. Instead of being a first and most effective means of aiding the country's industry and commerce, it has become the last resource of desperate financiers and impecunious statesmen. Like Frau Heustein's monster, however, the recent rate increases have helped only to kill and bury some dangerous reputations. Until

the railway policy is fundamentally recast in all its essentials, there can be no hope of deriving for the community the full benefit of the railway service. Lord Inchcape's committee have pointed out directions for economy, which it rests with Government to carry out. But a far more effective and lasting method of introducing real economy would be to improve the railway service. It is demonstrably bad finance to go on increasing rates in the hope of adding to the railway income. Nothing could more thoroughly condemn the financial ability of the present bureaucrats than their misguided and unscientific attempts to raise the wind from the Post Office and the Railways simply by adding to the charge of the service. Where they hoped to increase the public income, they have not only been faced with a diminution; but they have actually penalised industry and strangulated the commerce of the country. If in place of the crude expedients of amateur financiers, they had tried the only real economy of improving the service, the income would have automatically increased without any increase in the charges. If the railway authorities in India could only be modernized enough to see the value of their discontinued week-end rates, and holiday rates, and excursion rates, they would soon see—by an actual reduction in charges—the paradoxical success of an improvement in income, once more proving the classical example of Gladstone's great financial achievement. Why should not a similar experiment be tried in India? And if the railway authorities could only be galvanised into so much modernity as to try extra services like insuring goods and passengers for a small consideration, they would leave the miserable spectacle of a hardly concealable deficit far behind, and soon make the railways as truly profitable and helpful as they were intended to be and are capable of being. They must, of course, adopt along with these modern expedients, the still more sure

Koviloor Acadamy

methods of restricting leakage or pilferage; and learn to consider the consignors and travellers—even of the lowest class— not so much as the scum unworthy of decent human treatment, but as their patrons or customers, entitled to all the amenities of civilized commercial intercourse. But this change cannot take place unless we revolutionise the entire spirit and personnel of our administration, unless we infuse the idea of service in place of the modern greed for money and yet more money. No amount of increased wages to the "superior staff" will help us to achieve this end. We must break with the traditions of the past, and throw down the false ancient idol of increased remuneration, as inducing increased efficiency. We must make the workers of all grades realise the dignity of work, the dignity of service, the glory of the artist and we shall have no more of repeated deficits.

Taking next the purely commercial service of the Post Office, the following table giving the receipts and expenditure from that source deserves careful consideration:—

Year	P. O. Revenue	P. O. Expenditure	Surplus or Deficit
	Rs.	Rs,	Rs.
1913-14	5,39,77,785	4,90,94,760	48,83,025
1914-15	5,39,54,655	4,88,58,945	50,95,710
1915-16	5,68,12,170	4,72,45,200	95,66,970
1916-17	6,26,19,105	5,16,20,805	1,09,98,300
1917-18	6,92,50,350	5,35,15,950	1,57,34,400
1918-19	7,51,87,281	5,92,82,023	1,59,05,258
1919-20	8,79,38,765	6,77,20,480	2,02,18,285
1920-21	9,44,61,448	8,11,62,341	1,32,99,107
1921-22	8,89,26,000	10,70,74,000	-1,81,48,000
R.E. 1922-23	10,23,85,000	9,33,27,000	1,90,58,000
B.E. 1923-24	10,71,83,000	8,68,39,000	2,03,44,000

The last two figures are Revised Estimates for 1922-23 and Budget Estimates for 1923-24. These do not quite agree with the observations of the Finance Minister in the budget speech. For *apropos* of the Revised Estimates for 1922-23 he said:—

Koviloor Acadamy

"The effect of the new postal rates during the first few months of the financial year was to reduce correspondence....The department will probably prove to be running at a profit of 24 lakhs."

And on the Budget Estimates for 1923–24, he said they were able to continuate for a net profit of 147 lakhs as against 24 lakhs in 1922–23. But that profit has yet to be earned.

Until quite recently the Post and Telegraphs taken together were a paying concern, though not quite on the scale or model of the British Post Office. Even in recent years they would have shown a surplus, but for the inclusion on the side of the expenditure, of considerable sums spent by way of interest on capital, and charged to revenue in order to show the correct financial position of this great commercial service. We do not wish to deny the service rendered by this institution in the cause of the development of the country by its low charges suited to the economic conditions of the people. But we must point out that of late an unholy spirit of commercial greed has made its appearance in the administration of the Post Office, which, if persisted in, is bound to defeat its own purpose. A Government monopoly in a service of such immense public utility cannot be said to be properly handled if the ideal of service to the community is substituted for by the ideal of gain to the monopolist. In the Budget of 1921–22 the first attempt of the kind was made by raising the half-anna postage charge for letters to there-fourth anna and the post card—justly regarded as the cheapest medium of communication in the world—was barely saved. But the Government reformed their battalions and returned to the charge in the next budget, with the result that the quarter-anna post card is a thing of the past, and the half-anna inland letter is replaced by a full anna charge. The results have a moral of their own. The gross receipts in the budget of 1921–22 were estimated at Rs. 10·59 crores. The Revised Estimates for the same in 1922–23 was 8·89 crores or a fall to 84 p.c. For the current year.

"the extra revenue from these charges is estimated at Rs. 160 lakhs. Apart from the additional revenue due to the revision of rates, the budget estimate for the revenue in 1922–23 provides for an increase of Rs. 42 lakhs over the revised estimate for the current year in anticipation of some improvement in trade conditions." (para 13 of the notes p. 745 of the Budget for 1922–23). But trade conditions did not improve, and the revised estimates had to be reduced by nearly 60 lakhs.

Here is another illustration of the new pernicious practice of deliberately overestimating the Revenue. For trade conditions have not improved, and, at the time of making the estimate the Finance Minister had no reason to entertain any such anticipation, unless the Government of India have tacitly adopted the philosophy of Mr. Micawber. The Finance Minister has not learnt the lesson of the decline in revenue, inspite of the increase in the rates in 1921–22. Increased rates, after a certain point, necessarily diminish traffic, particularly in a poor country like India; and they therefore actually result in a decline of receipts.

We do not of course suggest that a commercial department like the Post Office should not be utilised at a pinch to yield additional revenue, though we would emphasise the importance of the ideal of service in such concerns. **We are convinced that the increase in the rates was badly conceived, badly-planned, badly carried out,** and hence the fall in the expected revenue. We consider that the increase in expenditure, in so far as it is due to the carrying out of the recommendations of the Hazeltine Committee, at least as regards the superior staff emoluments, is insupportable in view of the actual financial position, and unjustifiable on account of the absence of any corresponding increase in the efficiency. The increase in expenditure is the more objectionable as the distribution of the benefits, as between the superior and subordinate establishments, is grossly uneven The postal strike in Bombay in

1920 was an illustration of the discontent engendered by such unfairness. And though after 6 months of avoidable suffering to the public, the department may have succeeded in breaking the strike, the general attitude and the particular expedients adopted to break that strike reflect most luridly upon the authorities concerned. In connection with the myth of increased efficiency brought about by improved salaries, the following titbits culled from the Inchcape Report are worth a study. "Though the total staff in the department increased between 1913–14 and 1922–23 by only 17 per cent, the cost of the salaries increased by 118 per cent in the same period. Of the staff the superior officers increased by 32 per cent and the rest by 17 per cent." "On the basis of 20 messages per hour, per operator in the telegraph department, the staff required for the work of that department ought to be 2392 *plus* a standard leave reserve of 17½ per cent. The actual staff was 3436 or an excess of nearly 25 per cent—which shows a proportionate *decline* of efficiency." Every one of the paragraphs in the Inchcape Report is an unqualified condemnation of the prevailing extravagance.

We have already conceded the propriety of commercial treatment in a commercial department in the hour of financial stringency. But we think there are other means, besides trenching upon the poor-man's post card, for increasing the revenue surplus. Economies in the internal working of the department, such as automatic stamp vendors or corresponding franking machines, are almost entirely unknown to the fossilised officials governing the Indian Post Office. The economy of time and labour secured by the simple regulation enforced in a city like Bombay requiring pigeon-holed letter boxes installed at the main entrance gate of each house, is also unappreciated and unrealised. The strike of the Bombay postmen need never have occurred if the simple expedient of administrative econmy had been appreciated. But the greatest defect of the present Post Office

Koviloor Acadamy

organisation is the want of proper development of its earning side. To one who glances superficially at the number of the services performed by the Post Office, it would be astounding how such a department could make a loss! (A) It has a practical monopoly of the carriage of letters and parcels; but the system of that carriage has not improved since the days of its invention. Even such a slight convenience as the letter card has yet to be invented. The restriction of weight on parcels carried by post is not only meaningless in the face of a magnificent system of public railways, but is positively injurious to the revenue. There are a number of goods—perishable in nature or valuable in quality—on which people would fain pay the post office parcels charge in return for a guaranteed certainty of timely and safe arrival, and rather send them in regularly increasing quantity by the postal mail than run the well-known risks of railway carriage even at railways' risk. The 12 lbs. limit was intelligible in the days when postal mail had to be carried by human runners or animal driven vehicles. It is intelligible in a country like England where the railways are private property, though even with private railways America has increased the parcels limit to 4 cwt. In India there is no such reason to keep down the limit of the postal parcel weight unless it be that Government want to make the railways out to be profitable at any cost. The increase of parcel weight to one maund might quite probably add a crore of net revenue to the State; and until such an experiment is tried, the officials of the Post Office have no claim to any credit for efficiency, and the Government have no right to call it a commercial department. (B) Then there is the Insurance and the Money Order business. In 1920–21 the Post Office carried 4·5 million insured articles of the declared value of Rs. 137·75 crores. The limit of insurance is Rs. 2,000 and the charge

is 4 annas per hundred—much too excessive in comparison with the commercial charge for the same purpose. The officials are satisfied by the admitted popularity of the business and its growth, and therefore take no steps to increase it further. The revenue derived from this business was 18 lakhs, and may quite probably be doubled if the value limit is raised (C) The V. P. P. business accounted for the carriage in 1920-21 of 11·5 million articles, of the total value of 22·125 crores. The same remark which applies to the parcels branch would apply here, with the possible addition that the introduction of a C. O. D. system of local carriage in big cities like Bombay and Calcutta, at a small charge, might not only add a good source of income to the State, but also help to solve the housing problem of such cities by relieving people of their shopping worries, and at the same time develop the retail business on the departmental stores scale which has its own advantages to commend it. This is a source of revenue more easily availed of by the Local Government or the Municipality; but its mention in connection with the Post Office will serve to show the directions in which our postal management is still behind times. (D) The Money Order and Savings Bank business of the Post Office is open to criticism on similar grounds. The total money order business, including inland and foreign orders has grown from 27,243,409 orders of the value of Rs, 48,71,38,990 in 1911-12, to 38,504,814 of the value of Rs. 98,36,48,316 in 1920-21. The orders have grown by 40 p. c. while the value has increased by 105 p. c. which means that the improvement of the service could be effected at progressively diminishing cost. And this inspite of the crushing charge of one per cent when the banks do the same kind of business for ¼ p. c. on large sums, and when the currency notes properly managed could do the business at just double the postage charge—2 annas now—for a letter containing notes of any amount divided into 2, and sent in successive lots. If only the Post Office authorities

Koviloor Acadamy

would realise the true principles of commercial remittance and popular banking, they could not only add to the volume of the business, but secure practically interest free deposits to a very respectable figure for carrying out this business! The significance—perhaps the very name—of the Belgian Postal Cheque and the German Giro system of payment, are unknown to the petrified Pundits of the Indian Post Office. Much less can one expect them to realise the far-reaching results in national economy of such measures. For, positively free inland remittance through the Post Office might not only add very considerably to the ordinary letter business of that department, but will of necessity bring about an extension of the habits of banking among the crudest villagers, of the value of which we seem to have as yet no conception. Extended postal banking— doing free remittance business in alliance with the Post Office on the model of the *giro* business of the Reisch Bank in Germany—would mean an increase of deposits, which, even if we take it at ¼ of the total volume of the present postal remittance business, would mean a saving of interest at 4 p. c. on 25 crores or nearly one crore; while the poorer people would actually obtain the invaluable boon of free remittance, extended banking, habits of using their credit &c., the real value of which we can never estimate. (E) So, too, in regard to the Savings Banks Deposits. The rate of interest, the maximum amount of deposit, the procedure for paying in or withdrawing are all framed in a way which makes one despair of the commercial possibilities of the Post Office. While our industry is crying for additional capital, and the State is being approached to commence some kind of industrial banking, we find the latter positively arranging its one activity in banking on lines which cannot but frighten away deposits that might well become the nucleus of safe industrial banking ! If the rate of interest is made at all to conform to the realities of the Money Market; if conditions of depositing could permit

Koviloor Acadamy

automatic conversion between deposit banking and current accounts; if the latter be linked up with the postal cheque, the inland remittance and an alternative currency acceptable, without being made legal tender for all purposes of public payment; and if the margin of profits thus secured is invested through the Imperial Bank in the new private or public industries, there is every reason to believe that this branch of the Post Office business would alone yield an annual revenue, directly by fees or indirectly by saving in interest, Rs. 5 crores and upwards, without any great increase in the charges.

There is a class of Post Office activity of which the public know nothing because of its unduly narrow restriction to the employees of the Post Office, inspite of its immense possibilities for the benefit alike of the community and of the public revenues. We mean the Life Insurance business. Though confined to the postal employees, its results are already satisfactory enough to encourge a general trial. Besides the Life Insurance for its employees, the Post Office also insures within limits the parcels it carries. If the Insurance business is made more general and includes life, fire, and accident insurance to industrial employees, public and private buildings, motor cars, railway travel and carriage and general travel, its direct commercial benefit to the State ought to be very substantial from the start. We cannot measure the indirect benefit of such a measure, though of course such benefits are bound to be immense. But thinking only of the direct results in the shape of the increased revenue, and taking only the analogy of the newspaper insurance scheme in Britain, there is no doubt that a very large net revenue may be obtained from this source at a trifling increase in expenditure. *We hold, then, that such a great monopoly as the Post Office, may, if worked under the impulse of a far-sighted commercial policy, bring in vastly increased revenues at a trifling increase in the departmental charges, after and in consequence of a positive reduction in the charges of the services rendered.*

Koviloor Acadamy

On our recommendations, if adopted, the Postal Budget would be:—

(Figures in Lakhs of rupees.)

Accounts 1920-21	Revenue Items	As proposed	Accounts 1920-21	Expenditure Items	As proposed
6,90·15	Sale of stamps	6,50·00	6,12·65	Postal charges	7,00·00
99·33	Money and Postal Orders	50·00	2,68·78	Telegraph charges	3,00·00
Nil	Savings of Interest on Free deposits	1,00·00			
5·05	Fees and other Receipts	5·00			
30·97	Special adjustment	30·00			
1,62·35	Telegraph Receipts	2,00·00			
Nil	Extra Services of Increased Parcels	1,00·00			
Nil	Insurance	2,00·00			
	Improved Banking resulting in increased depostits and saving of interest	2,00·00			
9,87·85	Total Revenue ...	15,35·00	8,81·43	Total Expenditure. ...	10,00·00
22·25		...	1,06·42	Profit ...	5.35·00

A similar increase in the Railway Department would bring the net surplus from these commercial departments to aggregate between 10 to 15 crores per annum. if only the officers would stoop to learn.

We have deliberately considered only two of the public departments of the State in India as ministering to public utilities. That is not because we hold that there are no other departments of public activity classable under that category. The Irrigation Department, for instance, has never been worked by the Government, or studied by the public, as it should have been. For a total capital of some 80 crores or more the irrigation works of the Government in India have steadily been yeilding a net return, clear of all expenses, of some 7 P. C. on an average; and other works like the Sukkur Barrage, are in contemplation or construction, which are expected eventually to add very materially to the revenue from that source. But the irrigation dues are in practice an addition to the Land Tax, and as the Land Revnue System in most parts of India is the most uneconomic and iniquitous imaginable, we must postpone the fuller consideration of the irrigation revenues to the supplement relating to our agrarian problems. Another similar productive public department is that of the forests. Forests like irrigation works, had been made over under the new "Reforms" to the Provincial Governments who are lacking either in men, money or mentality, to realise fully the immense forest wealth of India. Almost any estimate one can put forward today of the probable yield from the forest wealth of India, is certain to be exceeded however extravagant it may seem at the moment. But the Indian bureaucracy, inspite of all the testimonials for zeal and efficiency given to it by its own members, is unequal to the task. And so we must per force accept the situation in which, inspite of the most splendid assets, the country is driven full steam ahead to an irremediable bankruptcy. And note, that in this tale of our available resources, we have mentioned only those which have actually been handled, or of the productivity of which vain credit has already been taken by our irresponsible and unresponsive bureaucracy. We expect no originality from red-tapes, and so we cannot

Koviloor Acadamy

expect them to try such unfamiliar ventures as an State-owned adequate mercantile marine. With a capital of not more than 20 crores, such a fleet could monopolise earnings annually of 40 crores in coastwise and foreign trading with a net profit at the most modest calculation, and after paying all interest, sinking fund and depreciation charges of not less than 20 crores. But no alien Government dare tackle a business which would fall foul of so many vested interests even though the benefit to the public of India as well as to the Treasury may be so staggeringly substantial.

Koviloor Acadamy

Some Unjust Taxes

What is a Tax? It is necessary, before estimating the merits and demerits of any specific taxes, to understand the general principles affecting the tax revenues and the different modes of apportioning them, as well as the consequences of each. For, as observed by one of the greatest masters of the science:

"For the modern state the tax and the national finances are indissolubly bound together. * * * * So long as private property continues to be the fundamental institution in modern society and the basis of industry and of the public economy, the tax must also continue to be the foundation and the corner-stone of the public finance." (*Gustav Colin*)

We may accept the doctrine of Proudhon that all private property originates in theft; we may grant that the interests of simplicity in financial organisation and of justice in the apportionment of public burdens, demand an abolition of private ownership in the instruments as well as the organisation of production, so that in a properly constituted society the public revenues would not be a forced contribution from private wealth, but rather the source and fountain for all

Koviloor Acadamy

private income. In a humanely organised society, there must be a conscription of labour and a war to the knife against the idle rich classes. In fact, if the logical conclusions of the two preceding supplements in this series were honestly faced, the alternative would be inevitable even in India that the only salvation for the bungled finances of India lies in an extension and development of the direct state enterprise in industrial domain, of which the Railways and the Post Office are specimens. But the Government of India are under a curse. Their best efforts and noblest intentions will be misunderstood and opposed so long as they are alien in personnel and anti-Indian in sympathies. The wages of sin are death; and, for the original sin of the Anglo-Indian bureaucracy the entire Indian nation must suffer in a radical wrong foundation of the social structure,—a fundamentally false conception of the social purpose.

The consideration, then, of the nature and adjustment of taxes becmes inevitable, not because they are or should be, in our opinion—the most important forms of public revenues; but because they have become, by a series of historical accidents, the most considerable if not the only forms of public revenues in India. "A tax" says Prof. Bastable "is a compulsary contribution of the wealth of a person or body of persons in the service of the public powers." If the last qualification, essential as it is, is sufficiently stressed, the Government of India would not be entitled to collect more then $\frac{1}{3}$ of the revenues they now obtain by taxation. We cannot say if it is the consciousness of this chink in their armour of unrightiousness which has made them anxious to split hairs upon what is and what is not a tax, in the ingredients of the Indian revenue system. "Conscience" says the poet, "makes cowards of us all," and perhaps here is an unwitting example of the same. The clear perception of the burden by the tax-payer, which alone can bring out clearly the

Koviloor Acadamy

element of compulsion as required by the above definition, is possible only in what are popularly known as the Direct Taxes. But because the weight of the burden is not so clear in taxes upon commodities, or in charges as services, they are none the less real taxes. True, wherever there is a possibility of obtaining a *quid pro quo*, the payment made may sum more in the nature of a price paid for a utility purchased than a compulsory contribution irrespective of the benefit received; but it must be remembered in such cases that not in every instance is the charge made in a monopolised public service at all commensurate with the real service rendered. The tax-payer, besides, has not, in such cases, either the power to corelate the amount paid to the service rendered, or the option to forego the service and save his money. For the utilities and service monopolised by the State are of primary importance and the specious alternative of foregoing consumption, though possible in theory, is unthinkable in practice, whether we think of the English Post Office or the Continental tobacco *regie* or railway monopoly. In normal times an intelligent, far-sighted, sympathetic and national government tries to adjust charges made to the service rendered; but its unused reserve of absolute power to raise the charges at will, totally irrespective of the services rendered, effectively distinguishes these charges from a strictly commercial price-making. The Indian railway rates and postal charges have already been discussed sufficiently to make any intelligent reader remember an appropriate illustration for the argument here advanced. We thus come to a more comprehensive definition of a tax:—

"A proper definition of taxes would, therefore, include all payments made to the State by individuals and corporations residing within the jurisdiction of that State, directly or indirectly, under obvious or imperceptible compulsion."

The Tax Revenues in India consist of :—

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Head		Accounts 1921—22		Revised Estimates 1922—23		Budget Estimates 1923—24
Customs	Rs.	34,40,98,381	Rs.	40,30,03,000	Rs.	45,09,41,000
Taxes on Income	,,	18,74,13,621	,,	18,69,31,000	,,	19,01,64,000
	,,	6,34,37,848	,,	7,17,84,000	,,	11,75,00,000
	,,	3,07,24,793	,,	3,98,68,000	,,	93,12,000
Land Revenue	,,	33,18,286	,,	43,81,000	,,	43,94,000
Excise	,,	53,80,399	,,	51,67,000	,,	52,58,000
Stamps	,,	24,61,081	,,	24,82,000	,,	25,81,000
Forests	,,	19,68,641	,,	26,16,000	,,	31,57,000
Registration	,,	1,70,705	,,	1,51,000	,,	1,62,000
Tributes	,,	87,77,807	,,	89,10,000	,,	86,45,000
Total	,,	64,77,51,570	,,	72,53,23,000	,,	82,27,14,000

In the official budget statements these are described as Principal Heads of Revenue, but with an exception of Opium and Forests Revenue, which are in the nature of monopoly profits and tributes from Native States which are receipts entirely *Sui juris*, all these heads of revenue are taxes pure and simple. According to the definition given above, the monopoly gains from forests or opium traffic would also have to be classed as taxes, but for the fact that the bulk of the opium revenue is derived from foreign comsumers of the drug, while in the administration of the Forest Domain the element of compulsory contribution is not evident enough to make the receipts indistinguishable from tax income. On the other hand, receipts from other monopolies of the State like Railways, Post Office or the Irrigation workes though essentially tax revenues, are yet not included chiefly because the receipts shown in the official budget statement are misleading. There are at present no net receipts from these departments, which are really working at a loss. If the full weight of the burden of these departments upon the community has to be considered, we shall have to take the *gross receipts* and not the net revenue, as shown in the official statement. But perhaps this procedure would be as unfair as the official alternative, and we have therefore thought it advisable to drop these receipts altogether. Nearly the same remarks would apply to the case of departmental receipts, which are mostly in the nature of taxes, but

Koviloor Acadamy

which are more than set off by the corresponding outlay on the individual departments. Finally, among the principal heads of revenue, as given above, historically the most important source of public income in India—land Revenue—seems to make a very poor show, as also the socially most dangerous item of Excise Revenue. The explanation is to be found in the fact that Land Revenue, Excise, Stamps, Forests and Registration Receipts have been made over to the Provincial Governments under the "Reforms" of 1920. The proper view of the Indian tax-system under the present Government cannot ignore these items; and for the purposes of these supplements, a full account of the Land Revenue and the problem in connection therewith will be attempted in another lot of supplements bearing upon the agrarian situation in India. For the general review here attempted it would be enough to say that the whole of the net income of the State in India is received from taxes.

Of the taxes levied in India, there is not one that justifies in all essentials the requirements of distributive justice in apportionment, or the demands of national economy in incidence and consequences. The father and founder of the economic science, as understood in England, has laid down as the first among his canons of taxation:—

"The subjects of every State ought to contribute to the support of the Government as nearly as possible *in proportion to their respective abilities.*"

But what constitutes ability? The obvious answer of wealth, as indicated by income or property, will not do, because as soon as the wealth is analysed, it creates a bewildering variety of issues that necessarily leads to a breakdown of this crudest of all crude interpretation. For, the real ability of an income,—or a given property or scale of living,—to bear a particular burden of taxation, will be quite different in proportion as we consider the earlier or stronger demands upon the same income. In appearance the demand of the State seems to be supreme; and, for obvious reasons, laws have

een framed to give the State demands an incontestable priority. But so long as the institution of private property and individualistic family endures, the private wealth of individuals—whether measured by their income or property—will have largely to be devoted to meet claims for the maintenance and bringing up of the young or the aged and infirm, whom the State should maintain collectively, but of which duty most States in the world have not yet received even a glimpse. In reality, therefore, the State demands in the form of taxes would have to be so adjusted as to interfere the least with the outlay that private wealth must make to maintain the community in a given degree of efficiency, or to promote an accepted idea of national development.

Take for example the taxes on income. By common consent of economists, these taxes are regarded as more truly in accordance with the principle of **taxation according to ability**, as indicated by the least objectionable measure. At the risk of wearisome repetition, we must observe that no tax can be altogether free from objection so long as it is a compulsory deduction from private wealth. To abolish the thieving propensity of the entire tax-system we must first abolish the origin of all social iniquity—private property. But granted the ground plan of a social system founded on private property and motived by individual gain, the evolution is unavoidable if absolute anarchy is to be prevented and some kind of community of ideals maintained. The old War-cry of "No taxation without representation" heralded not merely the dawn of modern democracy (which is bound to defeat its own purpose by an ill matched wedding with Militarist Imperialism) but also of the reviving consciousness of a common life and purpose over and above the individual life and doings. The best proof of this contention may be found in the systems which prefer or dislike particular taxes. Direct taxes, like the Land Revenue and Income Tax make the tax-payer painfully and reluctantly

aware of the burden he has to bear, and consequently force him to take a more active interest in the affairs of the State. Despots don't like direct taxes; and are yet, to their own undoing, obliged to resort to them. There could have been no Hampden without the Ship-Money, and so no Cromwell and no constitution in England. Conversely, because the Indirect Taxes, like the Excise and Customs Duties, are disguised and their real burden made imperceptible and temperamentally unresponsive, are inclined to prefer them. The Indian Income Tax originated, as an experimental measure, with the very first Finance Minister, but after a generation of vicissitudes, it has come to be a permanent feature of the national tax system. The tax, as it stands today, makes no discrimination between incomes that are earned and those that are unearned, and thereby incures the most serious objection to which the most direct of taxes can be exposed. With an exemption, by way of minimum necessary for subsistence for incomes under Rs. 2000 per annum, and with an abatement in favour of officially recognised forms of saving like Insuarance Premia, the tax starts with a low rate of $2\frac{1}{2}$ p. c. upon incomes between Rs. 2000 and Rs. 5000 per annum, and marches by easy gradations till it reached 18 pies in the rupee or $9\frac{3}{4}$ per cent on incomes above Rs. 40,000 per annum. There is also a Super Tax which commences at Rs. 50,000 of annual income with one anna, and goes on to 6 annas in the rupee on an individual income of $5\frac{1}{2}$ lakhs or more per annum. The graduation is by no means quite so steep as in the case of the initial income tax rates; but the principle is sound, and, with slight alterations, can be made to combine justice in tax adjustments with productivity to the State in the yield. The combined Income and Super Taxes admit of many improvements in the details of assessment and even in the technique of abatements or refunds. But altogether, tested by the fundamentals already indicated, these taxes are essentially unobjectionable.

But the real objections to the Indian Income Tax system lie deeper. Considering the Indian Fiscal system as a whole, and compared to the more advanced democratic nations of the West, Direct Taxes seem to play a very insignificant part in the Indian Tax system. Including the Land Revenue, the total yield of Direct Taxes in India would be under 55 crores out of a total revenue—central and provincial combined—of some 220 crores. The Land Revenue, however, is, at least according to the official interpretation of it, in the debatable margin. But including it, we find the Direct Tax yield to be less than 25 p. c. in India as against the 50% in the British Budget. Deducting the Land Revenue would make the disparity much greater. The wealth of India being very small, the income from Direct Taxes may never be very great in this country, but even so the existing disproportion unmistakably points to obvious iniquity in tax adjustments.

Another great defect of our system of Direct Taxation is **the exemption of all Agricultural Incomes from Income Taxation.** The small cultivator of the Ryotwari regions has indeed an income too small to be able to pay a tax thereon; he would be exempted in any system of equitable adjustments of the tax burdens. Besides he takes more than a fair share of the burdens of the Government by the pay ment of the Land Revenue, in itself a Direct Tax almost like an Income Tax. While in the case of the other incomes, all incomes below Rs: 1999 a year are now exempted, or Rs. 1,000 a year until quite recently were exempted, **the bulk of the Land Revenue is paid by men living much under that minimum of taxation.** If an attempt were made to make tax burdens more evenly distributed, it is more than likely that **a great portion of that revenue will have to be permanently abandoned.** Of the total Land area in India 47% is held by small peasant proprietors and 53 by Zemindars. Of the latter rather more than a third or 40% is permanently settled while the remaining 60% is temporary. Assuming for the sake of simplicity that the revenue is contributed in equal

proportions by the permanent and the temporarily tax-payers, according to table on P. 171 of the Decennial Statement of the progress and condition of India issued on 22nd July 1913, the revenues would have to be exempted from taxation as noted below, in the different provinces. The entire revenue in the Ryotwari districts need not be exempted. But assuming that it is wholly remitted, the Land Revenue would be reduced by Rs. 15 crores or nearly 50%. If the charge in the Zamindary area is doubled the loss would be made up.

Province	Zemindari Area.	Ryotwari Area.	Total Revenue	Revenue exempted
Madras	29.17	61.57	7.00	4.65
Bombay	3.75	44.87	5.41	4.95
Bengal	49.56	Nil	2.79	Nil
United Provinces ..	68.33	,,	6.66	,,
Punjab	62.21	,,	4.04	,,
Burma ,,	Nil	108.79	4.75	4.75
Bihar and Orissa ..	55.21	Nil	1.54	Nil
Central Provinces	40.63	1.83	1.98	.10
Assam	53.89	25.91	.75	.16
				14.61

But while there is possibility of considerable decline in revenue if the exemption limit is raised, the Incomes of the great Bengal land-lords or the Oudh talukdars, will more than make up the deficit, if taxed at a rate in proportion to the size of their incomes. The Permanent Settlement, it has been argued, has resulted in an exemption from taxation, which is all the more scandalous as the individuals exempted are the most able to bear the burdens. But so great is the strength of this powerful vested interest that when, owing to war needs, the rate of the Income Tax was sharply raised in 1917–18, and an attempt made to tax at least the income derived from the savings of the Agricultural Incomes, the representatives of the land-lord classes in the Imperial Legislative Council voted solid even against this slight infringement of their extraordinary privileges. It is an irony of fate that the veteran Bengali leader—the great Surendro Babu—was made the mouth-piece to maintain these indefensible privileges. In Bengal alone the Land Revenue now collected is estimated to

Koviloor Academy

represent only about 25% of the rental of the Bengal land-lords. If the basis adopted in the Saharanpur rules were extended to Bengal, the revenue from land in that province would account for 6 crores more and together with Bihar and Orissa, it might be much in excess of 9 crores. the taxation of Income would then be placed on another footing altogether. At the present time, however, assuming the Land Revenue from the Ryotwary as well as the Zemindary areas to continue on the existing basis inspite of its manifest injustice, the only means to equalise the burdens of taxation is to levy an income tax from the large landed proprietors at the same rate as is levied on other incomes on the *whole* of there income, no matter from what source they are derived. Probably such a measure would add another 5 crores at the very lowest computation. If the whole of the excess or unearned increment is to be taxed, the addition would be much greater. According to the Decennial Statement of the progress and condition of India, the total area of 608 million acres was divided into 285.63 million Ryotwary, and 322.5 million Zamindary acres, of which 121.86 were permanently settled and 200.63 temporarily settled. If we divide the total revenue from land in equal proportions the permanently settled Zamindaries would pay 20% or 7 crores, the temporarily settled Zamindaries would pay 33% or 12 crores, and the rest 17 crores would be paid by the Ryotwary areas. If we extend the fifty per cent net assets rule to the permanent Zamindaries, and if we accept that the present tax represents only half that ratio, the yield from these lands alone would be greater than 7 crores. And similarly the 12 crores paid by the other Zamindary lands were taxed at the average rate of 10%, the yield would be 1.20 crores.

Besides these two main defects in the Income Tax system of India, there are others of minor importance which, however, if properly looked to, might add no small sum to the exchequer. For instance at the present time the tax is supposed to be levied on the

total income, no matter how derived. Apart, however, from the profits of the companies, the dividends of which deduct the tax before payment to the proprietors, there is no means to apply the device of taxing at the source. Thus in the case of Public Servants only the official salary and acting allowances are subject to tax deduction before the salary is paid. But the other gains of public servants, e. g. travelling allowances, expert or examination fees, and similar additions to the income, are not taxed in the same way as the main salary and allowances. As these incidentals make up no small proportion of the income of public servants, it is not improbable that a more rigorous administration of the tax may add considerably to the total of the tax. Finally, in the case of merchants and professional men, the assessment of the tax is necessarily dependent on the declaration made by the individual tax-payer—a declaration, which, there is reason to believe, is by no means excessive. There is, moreover, no distinction in the Indian Income Tax system between incomes which are earned by the personal exertion of the earner and those which are the results of factors in manipulating which the earner has no hand. Necessarily the former is uncertain, precarious, unsafe and ought, therefore, to be differentially treated in the rate charged or exemption granted. Similarly too, allowance ought to be made according as to whether the income is for the exclusive gratification of the owner or has other charges upon it such as the support of a growing family. A rebate or exemption must be granted on this account as well. These charges, if made, might conceivably reduce the yield by 2 crores or so. But if all the other improvements suggested above are simultaneously incorported, the total net yields from the direct taxes on income will, at a modest calculation, exceed Rs. 30 crores per annum; and thus solve some of the most thorny questions of the Indian financial system.

Koviloor Acadamy

Another class of the most scandalous exemptions from the burden of the Income Tax—one, moreover, which provokes the question if the Government of India today is really conducted for the benefit of the Indian people,—is that in regard to the foreign capitalist exploiting India. Practically the whole of the sterling debt of the Government of India, aggregating now between £ 250 and £ 300 million, is exempted from the Income Tax of India, though the rupee securities, inspite of all their depreciation, have to pay the maximum rate of taxation! Law, equity, and economy alike condemn this practice, which lacks even the justification of a corresponding exemption from the British Income Tax on Indian creditors of the British Government! The case is not merely one of a double taxation within the Empire. It is bound to create the most unpleasant and invidious comparisons. On merely the financial grounds, this unjust exemption if cancelled, would save to the Indian Exchequer close upon 2 crores of rupees per annum, which is now made a free gift of to the British creditors of the Government of India. No wonder Lord Reading has had to urge the absence of any alternative to the certification of the Salt Tax for equating the Budget! We do not know if the foreign capitalist, engaged in private industry and commerce, is fully taxed under the Indian Income Tax Acts. The large number of Foreign Banks, Insurance Companies, Shipping Ventures, which are doing a great business in India, but which are not registered in India, have a total capital of some £ 600 millions, which at the most modest rate of 5 p.c. profit, must be draining this country to the tune of £ 30 million annually. Even if we overlook the disservice of this insidious drain, and claim only a fair share of taxes from such ventures, the Indian Exchequer ought to benefit, at the present rates of tax, between 4 and 5 crores per annum. The Income Tax alone, therefore, if properly adjusted, and freed from these most scandalous exemptions, would yield an

increment of between 10 and 15 crores per annum, which may very well be used to rectify the hardships of the other taxes.

II

The difficulties in the way of a proper working of the Income and Property taxes—or the direct taxation of wealth—have preserved the otherwise crude, antiquated and uneconomic system of direct taxation on that indication of wealth which is shown by an individual's expenditure. Taxes on expenditure consist chiefly of Excise and Customs duties. As they are, generally speaking, paid along with, and as a part of, the price of the articles of consumption, their burden is not really perceived by the actual tax-payer. It must, however, be noted that taxes on expenditure are not necessarily or invariably unperceived or indirect taxes. The license duties payable on keeping dogs, cycles, carriages and horses, men-servants and motor-cars are as direct as any Income Tax. As however the yield from these latter is never very considerable and as their assessment is usually on a fixed scale left to the local governing authorities, public attention is chiefly riveted on the limited class of expenditure taxes, comprised in the Excise and Customs duties. In their case it should be illusory to maintain that the taxing authority can always apportion the tax burden according to the ability of the tax-payer. Commodities thus taxed will be necessarily these which, being of universal consumption, will yield a considerable revenue. But precisely because they are prime necessaries of life, and therefore of universal consumption, the individuals contributing will have to contribute irrespective of their ability. A salt tax, a tea duty, an excise charge must be paid by any one using the article taxed, regardless of the power to pay. It is sometimes urged in favour of these expenditure taxes,* that their essential characteristic is that the faculty on which they are based is not one calculated or estimated by the Exchequer, as in

* See N. G. Pierson's Principle of Economics Vol. II.

the case of Income taxes, but one which the tax-payer imputes to himself. But the plea is sound, if at all, in the case of taxation of luxuries or superfluities. When the article taxed is salt or tea, or a piece of clothing which the poorest individual must consume, it is absurd to suggest that the individual gives his own standard of ability. He is indeed, at liberty to save himself the tax burden by not using the taxed article; but so he is at liberty to eat dog's meat, to sleep in a graveyard, to starve to death. Wherever, therefore, taxation of articles of universal consumption is practised, the rule is attempted to be observed that this kind of taxes should be so framed as would not impair the productive powers of the country. But the two aims—of getting the largest income for the State from these taxes, and keeping up unimpaired the productive powers of the country,—are often incompatible. The attempts to reconcile them by a system of refunds of excise and custom duties on the articles once taxed being exported, or of exemption of those goods intended to be used as raw materials for manufacture of goods, are not only clumsy in themselves, but often incapable of remedying the harm already done.

Another argument in favour of expenditure taxes, which is sometimes urged, is concerned with the power of the State, by means of these taxes, to discourage harmful consumption. It is on this ground that excise duties in England and India are usually defended. But (1) merely to raise the price of an article will never by itself suffice to put a stop to its consumption, however injurious it may be. Not only there are classes which cannot possibly be seriously affected by any increase in these taxes, and therefore, the real burden of such taxes will fall with disproportionate weight on the glass of beer as against a bottle of champagne; but the institution of such duties may often enable the dealers in such articles to levy an additional tax for their own profit which can well be concealed under the charge levied by the State.

The large annual income (2) moreover that some States obtain by means of this taxation of injurious consumption exposes the sincerity of statesmen more than ever to suspicion, when they talk of raising these taxes to reduce consumption. They will never raise such taxation to the really prohibitive limit, even supposing the mere increase in price is effective in preventing consumption completely, unless and until there is a radical change in the fundamental principles governing the existing tax system. For the only effective way of regulating consumption and keeping it within bounds is to make such articles the absolute monopoly of the State, which will then control the manufacture and supply as well as prices and sale. Finally (3) there may be legitimate differences of opinion about the real injury done to the consumer by specific articles. Even Opium and Cocaine are useful medicines. Within limits the consumption of intoxicating drinks, or tobacco or tea may be quite invigorating. Indiscriminate taxation,—and our existing systems can possess very little discrimination—only ends in unnecessary resentment, occasionally in serious injury.

Taxes on consumption, therefore, whether considered collectively, or from the particular standpoint of the taxation on injurious consumption, have obvious defects. The specious pretext that they are automatically adjusted to the ability of the tax-payer is impossible to maintain, if we bear in mind the relative values of different incomes, apart altogether from the fact that they will not reach all forms of income. They involve moreover, a very costly machinery for assessment and collection. The greater the reliance placed in any tax system upon such taxes the more numerous will have to be the articles taxed, and therefore the more costly the machinery to collect the taxes, to prevent their evasion, to stop illicit consumption. The attempts to distinguish between luxuries and necessaries, to institute an elaborate system of refunds and exemptions, to lay special emphasis on injurious consumption—all

confess the radical unsoundness of the system they seek to correct. It is fundamentally indefensible to tax the food and drink, the clothing and communications of the people. It hampers and often misdirects consumption, and generally defeats its own purpose. And yet we cannot altogether dispense with the taxes on consumption or expenditure taxes until the entire system of obtaining the public revenues is recast. Taxes on expenditure can only be defended on the ground that they serve to obviate the imperfections of the Income and Property taxes, or that at any rate, they all together bring about a greater measure of distributive justice in apportioning tax-burdens than any one of them singly can. But as consumption charges are usually indirect, and therefore their effects difficult to trace, as people might conceivably restrict consumption and thereby hamper, misdirect or curtail production, the intending tax-reformer must seek progressively to reduce and narrow the field of such taxes and increase proportionetely the direct taxes until, ultimately, the community comes into its own, and dispenses with taxation altogether.

Salt Revenue

The Salt Duty in India is an old item of public revenues, alike instructive in historical aspect, and productive in its fiscal aspect. It has been regarded by the present Government of India as a heritage from the older Native rulers of the country; it is by no means quite clear how was this tax collected under the indigenous regime. Assuming its existence, we hear first in history of the fiscal importance of this duty, when Lord Clive, in his endeavour to reform the public service of the Company, and to prevent the many abuses that had crept in by the sudden change of character from a poor trading corporation to a mighty arbiter of the destinies of kingdoms and provinces, set apart the proceeds of the monopoly of salt for the benefit of the public servants of the Company, who received miserable stipends, but whom Clive forbade to accept what were politely described as "presents" from the natives,

Koviloor Academy

and who were, therefore, thus to be compensated for the sacrifices of no mean portion of their incidental income. In Bengal salt was prepared by the Company's agents. Before the article could be brought to the market for sale, a duty of Rs 5 a maund of 82½lbs. was added to the cost of the production, which sum was reduced to Rs. 4 a maund on salt from Native States before it could pass into British territory. Where, as in Madras and Bombay, good salt could be prepared from the evaporated sea-water, the Company's government collected the duty from private manufacturers, the duty being Rs. 2 in Madras and Rs. 1 in Bombay. Finally, as regards salt imported into India by way of the sea, an import duty of between 5 to 6 rupees per maund was charged.

On questions of general principles the Government of India have regarded Salt revenue, in the semi-monopolistic manner in which it is derived, as a peculiarly suitable source of public income. Said the Duke of Argyll:—

"On all grounds of general principles salt is a perfectly legitimate subject of taxation. It is impossible in any country to reach the masses of the population by direct taxes. If they are to contribute at all to the expenditure of the State, it must be through taxes levied upon some articles of universal consumption. If such taxes are fairly adjusted, a large revenue can be thus raised not only with less consciousness on the part of the people but with less real hardship upon them, than in any other way whatever. There is no other article in India answering this description upon which any tax is levied. It appears to be the only one which at present, in that country, can occupy the place which is held in our financial system by the great articles of consumption from which a large part of the imperial revenue is derived. I am of opinion, therefore, that the salt tax in India must continue to be regarded as a legitimate and important source of public revenue. It is the duty, however, of the Government to see that such taxes are not so heavy as to

Koviloor Acadamy

bear unjustly upon the poor, by amounting to a very large percentage upon their necessary expenditure. The best test whether an indirect tax is open to this objection is to be found in its effect upon consumption."

As already observed, the salt revenue is considered by the Government of India as a legitimate source of public income, not only because it forms an appreciable proportion of the total revenues, but also because it is, according to the official theory in the matter, the only way in which to tax a large proportion of the community, who cannot be got at by any other tax in the entire system.* But even apart from the land revenue, the pressure of which is borne by two out of every three persons in India, who must also bear the burden of the salt duty unless they were prepared to escape the burden by ceasing altogether to use the commodity, the mass of the people bear more than their own fair share in the revenue contributed under the head of Excise, Stamps, Customs, Railway and Irrigation receipts, Provincial rates, Forests and others. These make up the bulk of the tax revenue in India, and as it would be impossible to tax for the use of salt only those people who pay no other taxes at all, the statement would be utterly inaccurate that the Salt Tax is the only means to reach a large proportion of the people of India. It is almost impossible to find a citizen of India who neither possesses land, nor uses intoxicating drugs or drinks, nor goes to law, nor consumes Forest Produce or wears clothing home-made or foreign, nor pays income tax, nor travels by Railways; and so it would be absurd to say that the salt duty is the only means to reach that section of the community which otherwise would escape all tax-burdens. The tax, moreover, is further objectionable, in that it does not permit of any variation in the rate to suit the ability

* "The Salt tax is the only contribution toward the public expenditure that is made by a large number of the people. (Sir E. Baker's Financial Statement 1907-08) Sir Edward Law thought the people in general contributed 20 o/o of their income to the Customs.

Koviloor Acadamy

of the tax payer. And as it is an important necessary of life, the rich and poor alike must use it in the quantities they need without much regard to the price. It is true, the reduction of duty has shown an increase of consumption, but the fact argues, not the possibility of much further increase in the same direction, but rather the under-consumption due to an oppressive duty in the past. On the other hand, it is true that the salt duty, as now levied, has taken the place of the old oppressive transit dues. To the extent that these have been altogether abolished, the retention of the salt duty must be admitted to be not altogether injurious. Though when this fiscal reform was first thought of the prospective loss of revenue from the abolition of the Transit Duties was sought to be made up by an increase in the Salt duty rate, the saner policy has since prevailed, and the reduction or an increase in the rate of the salt duty is now considered solely by itself. This improvement in the price does, no doubt, offer an effective set-off to the existence of the duty. The only drawback that the critic of the policy need mention is that the duty as charged today falls on the subjects of the Native States as well as of the British Government in India, while before 1878, the subjects of the Rajputana Native States were exempt from taxation of this kind. But as Sir J. Strachey has pointed out, it is possible to consider this an indirect mode of making these people contribute to the expense of the British Government, though it must not be assumed that they are altogether free from taxation.

The question would, perhaps, be beyond the pale of practical politics to consider whether salt duty should at all be levied in India. At the present doubled rate of taxation, the revenue from that source is about 4 % of the total; and even at the pre-war rate it would not be materially different. With the burden of the recent unproductive debt added to the finance, it seems most unlikely that any Indian financier would consider in the next generation the possibility of remitting the duty altogether. But theoretically the tax falls on a

necessary of life, the restricted consumption of which cannot but have undesirable effects on the health and physique of the people. In this respect it is unlike the other items in the Excise Bill where the commodities taxed are all more or less deletrious, and consequently no one need regret the restriction on consumption caused by the duty. On the other hand this is the one duty which is contributed alike by the rich and the poor; though impossible to graduate according to the ability of the tax-payer, it is nevertheless a source of income which has a definite limit placed upon it irrespective of the incidence of the tax. The figures of income would not increase appreciably even if the tax were reduced to one-half its present rate. At a fair low rate, therefore, there is no reason why the tax should not be continued, particularly if suitable exemptions are granted to every consumer for industrial purposes.

Excise Revenue

Take the Excise Revenue first. The term is confined to the taxation of articles of consumption produced within the country, the tax taking the various forms of a License duty or fee, a simple duty on output, "octroi" or Transit duties or Monopoly prices. The progress of society has been characterised in Europe by a steadily increasing revenue from the Excise system owing to the improvement of the standard of life and the consequent increase in the wants of citizens and the means to gratify these wants, so that the modern European State derives a very considerable proportion of its revenues from this system of Excise.* In favour of this system of taxation it is claimed that it is not only convenient to the tax-payer, in that he would pay as and when he obtains the taxed commodity and in proportion as he uses that commo-

* Before the War in U. K. the Excise Revenue Was £38·85 million out of a total revenue of £195·82 million or 20 per cent. In 1918-19 the yield was £59·14 million out of a total of £ 889 million or 6·7 per cent.

dity; but that he is himself the judge as to whether or not to use the commodity, and if to use it, how much? By this means, it is alleged, the tax payer indicates his own ability and thus facilitates the apportionment of the burden of the tax in the most equitable manner. We have already seen how far this specious argument is really to be relied upon, especially as regards the measure of ability furnished by Indirect Taxes on consumption. ‖ We need not dwell at length on the reasons which have recommended Indirect Taxation of this kind to certain Governments in the past. But we must observe that these taxes would achieve their object only if the articles selected are not only of such general consumption as to afford the greatest possible revenue, but also capable of being really apportioned according to the financial ability of the tax-payer. The attempt to discriminate between luxuries and necessaries, and to adjust the tax rate accordingly, does not always prove a success. Not only are luxuries unproductive owing to their quantity consumed being necessarily small, they are apt to defeat the object of the financier by a sudden shifting of demand due to a change in fashion or any such incalculable factor. The modern needy exchequer cannot, therefore, rely upon the taxation of luxuries alone as an adequate source of income. On the other hand taxation of articles of general consumption suffers from the defect,—rather a grave defect in these days of militant democracy,—that it leaves no means of exempting from taxation a minimum of income. We may, indeed, emphasise as we like the abstract duty of every citizen to contribute to the support of the State in proportion to his ability; but the existence in every modern state of large numbers of people, habitually living below a decent minium of existence, makes this maxim a sad travesty of distributive justice in practice.

‖ See the discussion under the section dealing with the principles of Direct Taxation in the preceding chapter.

Under these circumstances the excise duties tend to be narrowed down only to those commodities, which, being of general consumption, are likely to yield a substantial return, without causing undue hardship to the tax-payer. Even so, the list of excisable articles must not be very large, or else the sheer difficulty of supervision and the expense of preventive establishments would compel the abandonment of the schedule. In a smaller list the insistence on productiveness of the tax would lead to one of the two alternative results: either the rate of tax must be very high,—a position which would be supported only when the taxed article, though widely consumed in the community, is open to some moral or social objection, and thus facilitates the task of the financier in adjusting duties with a view to reduce consumption on moral if not on fiscal grounds; or else the articles selected are such as being of the widest possible demand, which does not vary from year to year, would yield even at a moderate rate a heavy revenue. We can illustrate both these alternatives in the Spirits Duty and Tea Duty in England, the one an instance of Excise, the other of the Customs revenue. However the tax is adjusted, the assessment and collection would be much simplified if the articles taxed are produced under conditions which render supervision and control easy and concentrated and relatively inexpensive. With this last object in view the best framed fiscal system would endeavour to levy the duty at the most favourable point in the transit of the taxed commodity from the factory to the hands of the consumer. The convenient moment for taxation may of course vary according to the nature of the different industries; and, if it is sought to conceal the total burden of the tax it may be divided at more than one point in the career of the same commodity. The possibility of distinguishing between the various classes of commodities of the same generic description according to their degree of deleterious-

Koviloor Acadamy

ness would enable the financier to vary the rate so as to penalise the most harmful consumption.

Excise Revenue in India

The Excise Revenue of the Government of India is derived from intoxicating liquors, hemp drugs and opium consumed in the country, and is levied in the country in the form of duty on manufacture and sale of licenses by fees.† In the paucity of our information as regards the system of Excise Revenue in the pre-British days, it would be difficult to draw conclusions as to the effects of the British Rule in the spread of the drink habit.§ But, in any case it seems to be fairly well established that the indigenous governments, whether those now in existence or those which the British Rule has supplanted, have had some system of "Abkaree Revenue" derived from the consumption of intoxicant liquors or drugs, which was so commonly handed over to "Ijardars" or farmers of these branches of public income. The British Government inherited, and for a considerable period continued this system of farming, but, while disinclined to undertake any violent departures from the prevailing systems and habits, the present Government has felt

† There is a form of Excise Duty, which is not included in the accounts under the head of Excise proper, viz., the Cotton Excise accounts receipts from which are credited to the head of customs.

§ That the habits of the people were surprisingly temperate, seems to be confirmed by the severe penalties and prohibition imposed by the Law givers of the Hindus and Mohomedans alike. On the other hand, inspite of these strictures, it is a notorious fact that at least in the Imperial House of the Moguls, consumation of wine was by no means unknown; and judging from frequent references to such habits in the profane literature of the Hindus they too do not seem, as a matter of history, to have been entirely free from a desire for stimulants. It is difficult to believe that the vice of intemperance could not have been utilised by the eirlier governments in India as a source of public benefit. In fact the East India Company did derive considerable revenue, as noted in the introduction, from the Abkaree system of the indigenous governments it had replaced in the various provinces.

more and more the indisputable claims of social and temperance reformers who would abolish if they could the drink habit altogether by this powerful lever of State action and regulation of the manufacture and sale of the intoxicants. Since 1888, if not earlier, the general principle of deriving the maximum of revenue with the minimum of consumption has been accepted, and to this end we find the various Provincial Governments instructed to raise their rates of Excise Duty, at the same time that they should check illicit consumption and minimise the temptations to drink among the people, by the more restricted number of shops for the sale of such article, the more restricted hours of business, the more stringent precautions as to the situaton and working of such places.

The Policy of the Government of India has been thus defined :—

" The Government of India has no desire to interfere with the habits of those who use alcohol in moderation. This is regarded by them as outside the duty of the Government, and it is necessary in their opinion to make due provision for the needs of such persons. Their settled policy, however, is to minimise temptation to those who do not drink, and to discourage excess among those who do; and to the furtherance of this policy all considerations of revenue must be absolutely subordinated. The most effective method of furthering this policy is to make the tax upon liquor as high as it is possible to raise it without stimulating illicit production to a degree which would increase, instead of diminishing, the total consumption, and without driving people to substitute deleterious drugs for alcohol, or a more for a less harmful form of liquor. Subject to the same consideration the number of liquor shops should be restricted as far as possible, and their location should be periodically subject to strict examination with a view to minimise the temptation to drink, and to conform as far as is reasonable, to public opinion. It is important to secure that the liquor which is offered for sale is of good quality and not necessarily injurious to health."

Koviloor Acadamy

Critique of the Indian Excise Systems

After the review of the prevailing system of taxation we may proceed to consider the question : whether or not the drink habit and intemperence have made any dangerous progress; and, if so, what steps should be adopted to prevent the evil. In this connection the statistics of consumption by provinces in the last decade, given below, would be instructive. In every case there is a considerable increase in the issue of spirituous liquors. In the country as a whole the consumption shows a decided increase, though not in the same proportion as the increase in revenue.

Province	Country Distillery 1905-6	Spirits issue 1912-13
	Gals.	Gals
Madras	1,221,819	1,773,673
Bombay. . . .	2,392,423	2,448,954
Sind	1,83,175	211,691
Bengal	452,242	851,534
Behar and Orisa . .	308,350	1,157,615
Burma , . . .	449,550	57,391
United Provinces . .	1,148,888	1,689,932
Punjab	470,651	473,669
N. W. F. Provinces .	17,358	24,298
Assam	30,520	247,363
Central Provinces. .	449,835	765,032
Berar	525,993	436,374
Ajmere	39,449	51,780
Coorg	26,057	26,493
Baluchistan . . .	...	23,599
Total .	7,716,310	10,239,398
Foreign spirits .	1,621,491	1,325,084
Grand Total .	9,337,801	11,564,482

As already observed the official explanation of this increase is contained in the possibility of better records of consumption under the new system of Still-Head duty, which is rapidly supplanting the old Out-Still system as well as in the improved economic conditions of the people. Accepting this explanation the Temperance Reformer would still contend that the Government of India is as far as ever from the ideal of putting down by taxation the harmful habits of the Western civilization engendered by a false sense and misconception of limitation. The enormous

interest of the Government itself, which now finds a very important and growing source of its income dependent upon the drink traffic, cannot but expose it to some suspicion as to the genuineness of its endeavours to curtail the drink habit and to prevent its spread. This dependence will be all the greater in the new system of financial autonomy in the Provinces, under which Excise becomes universally a Provincial head. It is true the Government of India has not yet accepted officially the ideal of the Temperance Reformer to be absolutely ending the habit of drink by legislative or fiscal coercion. But to those who regard that as the ultimate end of the activity of the State in this respect, it cannot but be a matter of regret that the Government should continue to derive, and be dependent increasingly upon this revenue; since under those circumstances every proposal for reform would be unconsciously viewed from the standpoints of its effects upon the exchequer. The financial interest may not be deliberately sought to be made predominant; and we may also concede that every individual officer, if questioned pointedly, would probably give preference to the social and moral over the purely fiscal considerations. But the dangers of adopting measures which would reduce and ultimately destroy a source of revenue now yielding over 10% of the total revenue and capable of doubling itself every ten years, are so serious that every executive officer is bound to hesitate before approving of such measures, however unconscious, however unintentional this regard for financial considerations may be.

Given the influence of revenue in shaping the Excise policy of the country we must admit that within the limits thus set, the efforts of the Government have no doubt been directed to a reduction of the temptations and thereby also the use of the intoxicating drinks. The reduction in the number of the shops is only indirectly serviceable in the cause of Temperance Reform, but none the less it is an effective means of combating the evil. Similarly the reduction of hours

during which liquor is available exerts a tendency to reform or at any rate to minimise temptation to the industrial worker who must thus get his supply if at all within certain hours, selected, still it must be said not without reference to his convenience. But being limited they prevent undesirable excess. Legislation, moreover, of the type that was recently passed in Bengal and other provinces prohibiting the sale of drinks to young children, has the same healthy tendency and to a degree succeeds in the aim.

The policy of raising the rate of the tax so as to make the drink habit a more costly habit is also pursued with the same object and hence we find as the following table shows a steady increase in the rate of the tax.

Province.	1901	1911.
	Rs.	Rs.
Bengal ...	5.7	7.6
Behar ...	...	3.2
Assam ...	...	5.0
United Provinces ...	3.5	4.7
N. W. Provinces ...	6.6	8.7
Punjab ...	6.3	8.4
Central Provinces ...	3.7	6.0
Burma ...	...	6.4
Madras ...	6.1	8.0
Bombay ...	3.7	5.1
Sind ...	5.0	6.1

There is, however, one serious objection why the policy of merely raising the rate of the tax would not by itself be enough to restrict and eradicate the vice. The rates as now charged are not only not prohibitive but they have a tendency to become increasingly less effective in proportion as the economic position of the people improves. Unless the rates are annually revised and raised the object is not likely to be accomplished, while revenues

Koviloor Academy

would grow at such a rate that the Government would become more and more unwilling at any time altogether to abolish the drink traffic. It is of course difficult to say how far the rates should be raised in any given year; and whether when raised, there would not be possibilities of evasion of the duty by illicit production which would be more harmful from every point of view, whether fiscal or social. This in fact is the greatest difficulty in the way of reform. And we see no way to remove it, short of an **assumption by the State of a complete monopoly of the distillation and sale of liquor.** The profits which now go to the private middlemen will thus be saved. Government will have better records to base their periodical increase in prices. For some time there would be no danger to public revenues from this source; but Government with a monopoly can so regulate the supply as, by sheer force of economic factors, ultimately to be able to destroy the drink habit.

The establishment of a monopoly in the drink traffic will fail to attain the end in view, unless the alternative forms of intoxicants are similarly controlled, if not monopolised. Recent reports of the Excise Commissioners note the increase in the use of cocaine and other more deleterious drugs; and it is possible to argue that the object of Temperance Reform will not be realised unless every substitute for alcohol is similarly controlled. In the case of *bhang*, *ganja*, *toddy* etc. the control is at present exercised only through the system of licensing the shops where these could be sold. Complete and effective monopoly of these forms of intoxicants is not to be thought of for some time to come, though the experiment of the opium monopoly may suggest the possibility and invite a trial. The position, however, of the Native States, and the possibility of evasion of control or infringement of monopoly from beyond these internal frontiers, must be fully considered before any policy of complete control can be seriously proposed. But making due allowance for all these factors the statement must be

repeated that the only way to cure the drink evil is to completely monopolise the intoxicants of every kind and thereby so raise the price rapidly, progressively, consistently as to make it beyond the power of all but the richest classes to ruin themselves. We recognise, indeed, that there is a world of difference between the ideal of the Temperance Reformer and that of the Government in India. The former aims at absolute abolition of the habit. The latter would not interfere with long-standing habits. Custom and prejudice would, therefore, continue their activities only to regulating and guaranteeing a good supply of the stimulant, gradually raising the tax so as to make the habit more and more a luxury. It is impossible to enter at this stage and in this article into the ethical aspect of the question: whether the Government of India does well to associate itself with such a source of the ruin of the people by making themselves dependent on the revenue derived from this source. While too sudden a break with habits of half-civilised people may undoubtedly cause political anxiety, which no settled Government can be expected to invite if it can be avoided, a full control of the sources and process of production, manufacture, and distribution is inevitable if the ultimate end is ever to be realised. During the process of the suppression of the habit the State must derive a revenue which may, however, loose all the taint of its origin if the increasing dependence on that revenue is avoided, if the possibility of reproach of trading in the miseries of the people is at all destroyed whether by a monopoly or by license and sale duty. We think it should be really better if that revenue is derived in a form which makes the control of the source all the more feasible.

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III
Customs Duties

There can be no question that at the present time the most important form of Customs Revenue is Import Duty. For political and administrative reasons this form is beginning to be more than ever important.

Considerations in Fixing Imort Tariffs

With the possible exception of the United Kingdom and the Turkish Empire, there is none of the principle countries of the world which at the present time regulates its Customs Tariff on Imports or exports, on an exclusively financial basis.

The case for high Import Duties, imposed with a view to grant some protection to the local industries, does not deny the obvious inference from abstract reasoning. The distribution of industries in the world as we know it is not based on that ideal assumed by the Free Trade economist, which, if true, would lead to the great world advantage from the growth of foreign trade as resulting naturally from the differences in comparative cost. There could be no occasion for any demand for an artificial stimulus to a country's industry if the principle of nationality were made extinct; if the regional distribution of population so completely harmonised with their ethnic qualities as to make labour of each regional unit employed at the the greatest efficiency in the industries climatically or geographically most suited to such a unit. Given however, the force of nationality and the virtue of patriotism, given the imperfections or inequalities in industrial development of different units. It is not surprising to find many deep thinkers deliberately ignoring or contravening the inferential disadvantages of a system of artificial stimulus to national industries by means of import duties. It is possible to argue in many a country that an industry, in all ways suited to the natural advantages of that country, may yet be prevented from developing in that country for want of the necessary knowledge and experience among the

people. Such a defect would never be remedied under a system of free competition from other countries who have managed, purely by historical accidents, to develop the same industry to a much higher stage of perfection. In such a case Protective Import Duties, by making competition with the protected industry, hardly afford an opportunity to foster such industry. Such a process of national industrial development no doubt occasions a temporary loss in the shape of increased prices, as also in the inevitable alterations in the employment of industrial capital and labour. But granting the fact of that loss it may yet be claimed that the compensation from an all round development of the country's industry would more than set off the loss.

This case for a scientfic protection has now become classic. The inherent limitations of such a case it would be futile to ignore. (1) It is in the best sense only a temporary expedient, since the underlying assumption of such a case is that the industry protected is capable of developing, if only in its initial stage it is guarded against unfair competition. The necessary corrollary of this assumption requires that when the protected industry has reached a stage when it no longer needs artificial stimuli, the aid once given to it must be taken away. The sacrifice involved in every system of protection would have been thrown away if after the experimental stage the protected industry still continues to demand protection. One of the most difficult problems which the protectionist has to face in practical life is to make a wise selection of the industries sought to be protected. The limitation of our information as to the suitability or possibility of a given industry, the existence of other than purely economic factors warping the judgement of the protectionist and influencing his policy, make it very hard to select wisely and to protect properly the suitable industries. Moreover, the essentially temporary character of scientific or justifiable protection demands a removal of the duties when their object has been served. But in practice almost all the chief Protectionist countries have found this an

Koviloor Acadamy

impossible condition owing to the growth of vested interests. (2) Scientific protection must also involve some loss or sacrifice. The nation desiring protection must make up its mind to bear this loss and treat it as an unavoidable or necessary expense for educating its people to the desired pitch of manufacturing skill. Such a view of the sacrifice involved would pass unchallenged if both the loss and the gain were truly national and evenly distributed. But in practice it not unfrequently happens that the loss is borne by one section—the consumers only—and the gain goes almost wholly to the much smaller section of the producers. The specious argument that protection creates more profitable employment may be adequate to entrap the ordinary workmen, who see the immediate rise in wages and have not foresight enough to consider the counterbalancing effects of a rise in the cost of living which results from the same cause. At first sight, it would appear as though successful protection, by establishing new industries, helps to create additional employment; but such a belief is impossible if it means that the total volume of employment in the country is increased. What successful protection can really accomplish is a change in the nature of employment from poor to more paying channels; it cannot add to the total volume of employment. The working classes as a rule do not realise this and they are, therefore, instinctively protectionist. The same also applies to the other argument of the protectionists in answering the charge of costliness or wastefulness of their programme. It is possible to make the foreigner bear the cost of protectionist duties. It is conceivable, no doubt, that a buyer or importing country in a situation of exceptional strength—having practically a buyer's monopoly of demand—may be able to ward off that burden of the import duties. But in that case, to the extent that the burden of import duties falls upon a foreigner, the duties would fail in their original object—would fail to be protective; for the only way in which the burden can be borne by the foreigner is a fall in price. And

if a fall in price does not arrest the imports, the tax on imports cannot be said to be protective. (3) The greatest danger to the industry of a country from a systematic adoption of scientific protection, however, is the likelihood of a permanent weakening of industrial position in the protected country. Tariff aid, instead of being a temporary and costly expedient, becomes in many cases the normal condition of the industry of that land, thereby undermining and enervating the whole position of industry. The enervating force is all the more apparent in a small country, where domestic competition is not sufficiently strong to prove the necessary stimulus which automatically compels an industry to keep abreast of the times.

If these necessary limitations of scientific protection are reorganised and appreciated there is no reason why a country, ambitious of industrial development, should not resort to it. Recent experience of great industrial countries have shown that import duties are by no means the only means of protecting one's country's industries. If the cost involved in the protectionist experiment is accepted as an unavoidable price of national development, the protection required may perhaps be more appropriately given in the shape of the Export Bounties or Direct Subsidies to selected industries than in the shape of import duties. The two last mentioned methods have a distinct advantage over the more common expedient of import duties. They make palpably evident the essentially Costly nature of the protectionist experiment, by making the subsidies and bounties a direct charge on the national revenue, instead of an apparent gain which the import duties suggest. The consciousness of the burden will provide its own remedy. Besides, as the bounties are given only to selected industries, admittedly of national importance, they would prevent the creation of any vested interests which Import Duties bring about. To the extent that bounties are needed by an industry they would mean a gift to the foreigner, for without the bounty there would be

no exports *ex hypothesi*. If the belief in the future of the bounty-fed industry is well-founded, the bounties ought to be progressively reduced; and thus remove an unfair advantage given to one section of the people. Even in the case of Import Duties, the problem of granting protection with the least risk of waste of national resources often requires a most minute adjustment of the scale of duties to the cost of production, to the various classes of the same articles, to the most delicate distinction between the rival claims of specific or *ad valorem* duties.

But the problem of defining the objects of a country's Customs Tariff is not over. We have yet to examine the more radical question of Customs Policy, to reconcile the claims of nationality, with those of world commerce; to show, if possible, that the gain of the producer need not necessarily spell the loss of the consumer. The rapid conversion of a number of the leading countries in the closing decades of the last century to a policy of protection, inspite of the limitations of such a policy, was as much the result of political as of economic considerations. A general adoption of protection indiscriminately must, apart altogether from an unhealthy attitude engendering of universal suspicion and unprofitable retaliation, result in a waste of the world's resources, owing to a misdirection of capital and labour due to the desire of a forced industrial development. The rise in prices, which must also follow in the wake of such a course cannot but exhibit the resulting hostility between the interests of producers and consumers. If it is sought to avoid this last consequence by attempting to regulate the industry protected and fix the price, the State would soon find an effectual limit to its exertions. Without any ability to offer an alternative supply, such an effort must fail. The only remedy to bring about the fullest development of each country's resources without injurying the interests of consumers or causing a wanton retaliation, is, in our opinion, for the State to take upon itself the task of

production, or at least its regulation. If the units of the League of Nations become competitive producers, the classic principle of the comparative costs would automatically assert itself—as in the case the confidence of equality would help to banish all suspicion of ulterior designs. International commerce would then follow the natural line of a territorial division of labour, the exchange between the trading nations being effected on the collectivist basis, and governed by treaties taking the place of innumerable individual contracts. The element of any undue or unearned profit in international exchange would disappear almost in the same way that the element of such profit has been eliminated in the exchange between the Cooperative Wholesale Societies trading with one another though situated in different lands. The control collectively of national production would also render the task of regulating the price according to the cost of production more easy, thus avoiding the present divergence of interest between consumers and producers. Recent events in many countries seem to show that such consummation is by no means unlikely. In any case unless some such arrangement is arrived at, mistaken protection in national interests would be unavoidable from ambitious nations, bringing in its train all the undesirable consequences of distrust, retaliation, and waste to which we have already referred.

The story of the Indian Customs Duties is one long tale of woe to the old or new industries of India. The interests of India have been immolated at the alter of theoretical Free Trade with all the zeal of recent conversion. India, according to the admission of the most noted Anglo-Indian statesmen, could produce almost anything under the sun—anything needed to minister to the comforts and luxuries of mankind. But they have used this admission to keep India permanently in industrial leading strings: they have used it to make this country simply and solely a helpless producer of raw metarials to feed and fatten the work-

shops and manufactories of Britain. But the tale of the fiscal policy has been told too often; the story of the Cotton Excise Duties unprecedented in the whole world has been recounted too frequently to need repetition.

Critique of Indian Tariff Policy

After the brief sketch of the evolution and present condition of the Indian Tariff Policy, we shall now proceed to discuss the basis of that policy. For a proper understanding of our criticism, the table on the next page is very instructive. It gives the principal imports into the Indian market in three columns, being the quinquennial averages of the pre-war and the war period and the last year of the war, 1918–19, together with the amount of revenue drawn from these sources for 1913–14 and 1918–19. The comparison is *not* quite free from objection in every respect, as the rise of prices materially affects the figures on the Import side, while the changes in the tariffs made in 1916 and 1917 affect the revenue figures. Allowing, however, for these factors the figures are still instructive.

From the following tables it would be clear that, with the possible exception of sugar in recent years, the Indian Tariff is mainly a revenue tariff. Import duties of 15% are levied chiefly on those articles which are either not produced at home in India, or which, being produced at home on the same lines as those imported form abroad, are taxed by means of a countervailing excise duty,

Export duties are levied either because India has practically a producer's monopoly of the taxed article (jute) or because, though possessing no monopoly, the demand for the article is so great as to make the tax fall partly on foreign customers. Raw materials for industry, and the necessary mechanical aids and equipments are either admitted free or taxed very lightly. In such a system it would be impossible to look for any but the financial motives in the tax adjustment, the various classifications and difinitions in the tariff

Koviloor Acadamy

Articles Imports	Pre-War Average 1909-13-14	War Average 1914-19	The last war year 1918-19	Revenue 1913-14	Revenue 1918-19
	Rs.	Rs.	Rs.	Rs.	Rs.
Cotton Goods	48,40,85,000	17,43,31,050	51.68.85,000	2,12,94,239	3,85,00,000
,, Yarn	3,77,18,000	4,94,79,000	8,86,68,000	For all manu-	1,76,50,000
Sugar	13,17,58,000	14,17,48,000	15.61.36,000	factures Rs.	1,76,50,000
Iron and Steel	11,17,45,000	9,61,00,000	12,14,99,000		26,50,000
Railway Plants and Stock...	6,10,91,000	3,18,19,000	1,01,35,000	1,53,10,176	5,00,000
Machinery & Building	5,80,01,000	5,76,52,000	5,85,91,000		1,20,00,000
Silk	3,91,51,000	3,93,11,000	1,74,91,000	13,77,4	
Chemicals, Drugs &c.	2,12,78,000	3,12,25,000	4,21,96,000	18,41,175	
Mineral Oil	3,72,03,000	4,02,50,000	3,51,32,000	72,48,941	12,000
Liquors...	2,02,46,000	2,36,61,000	3,30,21,000	1,23,68,181	11,250
Hardwares	3,17,01,000	2,79,17,000	3,22,83,000	Metals	Manufacture
Paper & Paste				73,29,237	
Board	1,27,07,000	1,96,18,000	2,72,07,000	Silver	1,91,00,000
Salt	79,16,000	1,81,66,000	2,33,10,000	99,4,993	
Provisions	2,05,10,000	2,11,82,000	1,93,81,000	Tobacco2	Tobacco
Motor Cars & Cycles...	1,00,61000,	1,11,15,000	58,89,000	29,29,526	81,75,000
tal			.....	9,36,01,836	12,74,70000

The latest estimate for Customs Revenue is Rs. 45 crores for 1923–24.

schedules being only for purposes of administrative convenience. Speaking generally, we may say that under the latest estimates, the manufactured articles pay 56% of the total Import Duties while non-manufactures pay 44%. This policy has practically strangulated Indian industries.

The new idustries—like those of iron and steel, hydro-electric power supply, leather manufactures etc.—have been only recently established. Their present successful appearance is largely due to the artificial protection they received during the war owing to the dislocation of similar industries elsewhere as well as to the freight difficulties. Nevertheless they seem already to have attained a position in which they might confidently expect to supply the portion of the Indian demand that has fallen to their share during the war. The task of restoration and re-equipment of industry in the devastated nations of France, Germany, Italy, Belgium, Austria and Russia is likely to demand the fullest use of the productive capacities of the world at its highest. India need fear no competition in her own market in her recently established industries for some time. The fiscal policy may, therefore, be said, not quite without any reason, to be a secondary factor in determining the industrial prosperity of India. But the strongest plea of the Free Trade in India is that of cheapness. Given the almost incredible poverty of the Indian people, the policy which claims cheapness to the consumer as its guiding maxim cannot but command a most respectful attention from everyone who claims to have the interests of the masses at heart. It may be open to doubt if the rulers of India were genuinely desirous of keeping the interests of the masses exclusively before them in all their vascillations in its fiscal policy; but it is certain that in the next generation the popular party in India, assuming India to become a self-governing democracy, will have to reckon with this argument. The bulk of Indian Imports have, until recently, been either such as could not be

produced in India at all or at too great a cost. Protection to such manufactures in the shape of high Import duties cannot but add to the price which the consumer would have to pay. †

To the extent that the wealth of the people grows and their powers of consumption improve the revenue from this source also grows, thus manifesting an additional advantage in its elasticity. Its cost of collection is, as shown elsewhere, quite insignificant when compared to the magnitude of the revenue obtained. Finally the lurking distrust of the motives of the English Government in manipulating the Indian Fiscal policy to suit the English interests, accounts for the strength of the Free Trade position in India.

The case for Free Trade in India is thus complete. We have, in the foregoing exposition, taken no acount of the purely financial side of the question, though, it must be observed, that a source of revenue bringing in about 20 crores a year cannot be abandoned by the Government of India under any probable circumstance. Articles selected for taxation are, mainly those of common consumption, so that quite a small list brings in the largest amount of revenue.

† Speaking on a motion for the abolition of the countervailing Excise duty on Indian cotton, in the Imperial Legislative Council on the 9th of March 1911, the late Mr. G. K. Gokhale expressed himself on the general question of Free-Trade v/s protection in India as follows:—But, Sir, situated as India is, I fear there is no likelihood of that kind of protection being available to us, and *it is my deliberate conviction that in our present circumstances a policy of free trade reasonably applied is after all the safest policy for us*.....Until at any rate we grow so in our influence and our position in this Council that the Government will think it necessary to accept and act on our views, I really think that on the whole a policy of free trade reasonably applied is the safest policy for this country; otherwise, influential interests, influential combinations, influential parties in England, who can have a ready access to the Secretary of State,...will not fail to take the fullest advantage of the situation and this huge engine of protection which a vast power can employ not in the interests of the people of India but in the interests of those parties". The present Indian non-official attitude on the question of Imperial Preference reflects, from bitter experience, the same distrust of English selfishness.

Koviloor Acadamy

This, however, is only one side of the case. The advocate of protection does not deny the growth of Indian trade and industry under the regime of Free Trade. He only maintains that the character of our foreign trade could have been different and the growth of industry more diversified and much earlier, had scientific protection been applied to Indian industry at a much earlier date. The diversity of climatic conditions, the richness of physical resources, the abundance of labour make it absurd to dogmatise empirically about the unsuitability of an industry in this country. The idea of the protectionist is, that, thanks to the prevailing policy, our resources are yet unknown, our capital unattracted, our labour force untrained, unintelligent, irregular and inefficient. The difficulties, therefore, which Indian enterprise meets with whenever it pioneers new industry must necessarily be immense, though temporary. And it is only to overcome these temporary difficulties that proper protection to nascent industries is desirable. On *apriori* grounds, there is no reason to apprehend any disastrous effects in a policy of sustained, scientific protection merely owing to a rise in prices, since the difficulties caused by that force will be counteracted by a more varied employment with better wages. There may, indeed, be a temporary divergence between wages and prices and a corresponding misery of the working classes. But the watchful might of the state in a government resting on popular support might be trusted to see that the benefit of protection is not exclusively reaped by the capitalist class alone. Industries may have to be regulated and prices controlled to avoid the risks which may possibly arise from a policy of protection. Entirely new industries may even be found profitable to be conducted by the public agency. And if these palliatives do not suffice to overcome the temporary hardship, it may frankly be admitted as a necessary cost for the industrial education of the country. Gifted as India is by nature, she can afford to defy the bogie

of retaliation, as there is hardly anything she cannot produce herself, at least to supply her own domestic market. And that market is so vast that for an industry, with any chance of existence, there would be no fear of a dead failure even if the industry has to be confined to the Indian market. On a general review, therefore, of the most important factors affecting the Customs policy of India, we cannot help concluding that there is at least as much to be said for the policy of protection as for that of Free Trade in India.

More than one third of the total cotton(raw) produced in the country, and over 50% of the jute is exported. If it be assumed that all our own raw material, which is now exported, should at least be manufactured in the country, we would find that there is considerable room for the expansion. The total value of the cotton, if manufactured in India, ought to exceed Rs. 100 crores. The only means of assuring the full supply of raw materials to the Indian mills is a tax on the export of these materials in their raw condition. If in addition there is much higher—or at least an equal duty—on the manufactures imported, India ought to supply her own market in cotton, and obtain the bulk of the world trade in jute manufactures. The extension of the two industries should be brought about by these duties which would sufficiently increase employment and wages and render the probable increase in the prices of manufactured commodity relatively unimportant. The only danger from such a policy of taxing the Exports of raw materials would be its injurious effects on the cultivator and possibly the diminution in the supply of these materials. But cultivation of these crops has gone too far for a duty of 10% to 20% to affect substantially the out-turn. At the worst we would have to evolve some means of price guarantee which would prevent the cultivator from being injuriously affected.

Our mineral resources in respect of coal, iron and other ores are not yet fully known or understood. The great imports of iron and steel goods including machinery, cannot quite advisably be taxed very high until

we are assured of sufficient total supply of the necessary raw material. But the possibilities of these industries hinted at by the Industrial Commission Report would not allow us to ignore the claims of all metallurgical and mineral industries to protection. They are the key industries which every nation must strain every nerve to establish within the country. We think the best form of protection to these industries would be a certain assurance of market, e.g., by means of government purchases upto a specified quantity and at a slightly higher price.

The case for protection of the sugar industry stands on a different footing. The imports into India, notwithstanding the very high extent of the area occupied by the sugar crop in India, have been stimulated by foreign governments by bounties on sugar, as well as by the backwardness of the sugar industry in India. We would, therefore, suggest that the present duty on imported sugar be doubled and a domestic sugar industry should be encouraged by every means possible.

But the strongest case of government intervention and protection is perhaps in the case of forests, and the industries connected with or dependent upon them. The imports of timber and wood, rubber, gums and resins, paper and paste-board amounted to nearly 10 crores in the last year for which figures are available. There is every reason to believe that our Indian forests are capable of yielding all this material and more. A systematic investigation of our resources in this respect and their exploitation would be hastened by the imposition of a 10% duty on these and cognate articles of import.

The same may also be said of hides and skins. We import about 19 lacs of raw hides and skins and 36 lacs worth of dressed hides and skins, against which we export about 20 crores worth of raw hides and skins as well as dressed. This suggests considerable scope for our boot and shoe, saddlery and leather trades. An export duty on hides and skins (raw) of 10% coupled with a 25% import duty on all saddlery, boots and

shoes and leather goods will bring about the ideal to be aimed at that we should manufacture fully at least our own raw material. Raw hides would of course be exempt from taxation.

Of oil seeds we export about 27 crores out of a total crop of 36 crores. The oil pressing industry would benefit and the manufacture of oils increase in proportion, if by an export duty of 20% on the oil seeds, the material is assured for the Home market. We need not suggest the same course with regard to grain crops as in their case Mr Datta's arguments against the export duties will apply in full force.

Summing up the changes proposed here we come to the following results in the Customs Revenue of the Government of India. It will be noticed that the financial aspect is by no means discouraging, as the changes proposed are not so high as to stop the trade in the taxed article altogether. The duties on the export of raw materials would have to be increased in proportion as the Local manufacture of the sale develops and absorbs more and more of the local material. The full development of these manufactures would, judging form the present conditions, be more than sufficient for the Indian markets. But the industries thus developed will not starve for want of market, as there are immense possibilities for the expansion of Inland trade and that with the neighbouring countries of Africa and Asia. The only difficulty in such a programme would be the absence of capital. It was once calculated that at least 600 crores of new capital investment would be necessary to bring up the development of our industries, commerce, and communications to the desired level. If this capital would be obtained and could be applied properly, there would be no difficulty in accomplishing the industrial development to the full extent that with our present knowledge the country seems ripe for.

Koviloor Acadamy

The Havoc of the Provincial Contributions

Is India a single nation, admitting of a homogenious treatment in the administration of her finances and other allied questions, or is she a medley of nationalities loosely tied together by the common might of an alien central government, which does not essentially permit the Nationalist treatment of a Unitary State? This is a grave question and depends so much for its solution upon political considerations, that in these purely economic supplements we dispair of adequately discussing it. Nevertheless it must be observed that the Imperialist, or rather the Nationalist, ideal of a single country from the Comorin to Cashmere has been held in India since the dawn of history, and is no brand new creation of British rule in the country. The *Chakravarti* monarchs of the Vedic and the classic age could not attain the glory of Emperorship, or *Digvijaya* unless and until the land of the Aryas from the Mountains to the Ocean was united under one head. It is not merely the dim antiquities of a mythological period that abound in these *Sagas* of the nationalist ambitions in India. Sober facts of history indisputably vouch for the ideal having been more than once realised, from Chandragupta and Ashoka to Akbar and Aurangzeb, not merely as the fitful gleam of a meteoric flame, but as a solid, sustained fact of

centuries. Even if the critic of modern Indian nationalism would explain these past Empires of India on the score of personal vanity; or megalomania of the Kaiser Wilhelm type,—though Indian history shows little to support such a gratuitous suggestion,—the fact remains that the Empire is not a novelty on the Indian soil, that nationalism is not a creation of yesterday in this country. And well it might not be. The inherent riches of this country were enough, from time immemorial, to tempt a ceaseless stream of barbarian invaders from across the borders or the ocean, to guard against which the single, scattered, shoddy states could not suffice. The State in India which lasted was on the granite foundation of a welded, unified country, no matter whether the unification was achieved by the Mauryas or the Moghuls or the British. The separationist tendencies now introduced in the Indian political ideals, under the tempting disguise of a decentralisation of powers, with a view to a fuller realisation of democratic ideals of Government, may sound plausible enough as practical exposition of modern democratic mechanism. But as an essay in administrative arrangement, as a piece of permanent statesmanship, it would be yet premature to pronounce any judgment upon the new creations of Provincial Autonomy. There are arguments, varied and weighty, on either side of the shield. There are considerations, like the ability of an independent India to withstand the more deadly rivalry of intense nationalists like Japan, in the more subtle grooves of economic exploitation and trade advantages, which have not even dimly been perceived as yet.

But, in any event, the case for Provincial Autonomy in financial administration needs to be studied more carefully than it has been hitherto, not merely from the practical standpoint of giving effect to the mutually inconsistent ideal of a strong central empire, with independent and autonomous provinces; but also from the deeper and more permanent standpoint of the

Koviloor Acadamy

ultimate political ideal for the development of the Indian peoples. There are complaints against Provincial contributions, voiced in a manner, which clearly indicates that the champions of Provincial Autonomy in finances have not yet realised either the genesis or the exigence of the arrangement. To facilitate the discussion, let us briefly outline here the origin of the modern system of provincial finance.

In the days of Lord Mayo, more than fifty years ago, the Central Government found it inconvenient or uneconomical themselves to manage the finances of an empire, and set about accordingly devising some scheme of financial devolution, which, without impairing the integrity or authority of the Central Government, would nevertheless impress the Provincial satraps with a due sense of the need for economy in financial administration, the utility of watchfulness upon the sources of public revenues. Lord Mayo accordingly made certain grants to the provinces within which they were told to manage their local expenditure in the heads of outlay assigned to their jurisdiction, subject, of course, to the over-riding influence and authority of the Supreme Government. The system thus inaugurated developed from Viceroy to Viceroy, from annual grants to quinquennial contracts, from temporary arrangement to semi-permanent petrifications, which were finally standardised about the time the "Reforms" were introduced, with their compliment of complete Provincial Autonomy. Let us study a little more fully the last two stages of the development of this marvellous mechanism of modern Imperialist Diplomacy.

The system, as it stood after the omnivorous appetite of Lord Curzon for overhauling the machinery of administration had had a bite at it, has been thus summarily described:—(1907)

"The Government of India retain certain administrative services, which it was thought to be inexpedient to hand over to the Provincial Governments. They, therefore, reserve the revenues from these sources, and such a share of the revenues from other sources as would suffice for the expenditure falling upon them.

Koviloor Acadamy.

The remaining administrative services being entrusted to the Provincial Governments, each of them receives an assured income, independent of the needs of the Government of India, and sufficient for the normal expenditure of the province.

This income is given in the form of a *defined share of the revenue* which the Local Government collects, in order that the latter's resources may expand with their needs.

As far as possible the same share of the chief sources of revenue was given to each province to ensure a reasonable equity of treatment.

As the charges thrown upon the Provincial Governments were in excess of the revenues assigned to them, the difference was made up by a FIXED ASSIGNMENT of the Land Revenue.

The Ordinary revenues of each province were supplemented by an initial grant, and a *Special Grant* to carry out particular reforms specified by the Government of India under the heads of Police, Education, Sanitation &c. was also added.

Special arrangements were made for the relief of famine. Every year the Government of India set aside a specific amount, roughly equal to the famine liabilities of a given province, to the credit of that province, subject to a maximum. When a famine did occur, the whole of the accumulated reserve of this sum may be drawn upon by the province affected without touching its other normal revenue resources. If the accumulated reserve did not suffice to meet the actual liability of th famine, the additional expenditure was met equally by the Imperial and the Provincial Governments, instead of being debited wholly to the latter's account."

In these arrangements there was a change of principle. The financial division had hitherto been made on the score of Imperial convenience. Henceforth the needs of the province, recurring and extraordinary, were to be the decisive factor. The assignment was for all practical purposes permanently fixed. The Supreme Government had, indeed, reserved their right to revise the settlement; but they had agreed to exercise that power "only when the variations from the initial relative standards of revenue and expenditure were, over a substantial term of years, so great as to result in unfairness either to the province itself or to the Government of India, or in the event of the Government of India being confronted with the alternatives of either imposing general taxation, or seeking assistance from the provinces".

Before the Royal Commission on Decentralisation which reported in 1909, the system of Quasi-Permanent Settlement of Provincial Finance was much criticised. The chief points of criticism were :—

Koviloor Acadamy

(1) The system of "Divided Heads" is injurious to provincial development.

(2) The practice of making Fixed Assignments makes the system inelastic.

(3) The spasmodic grant of lump sums is productive of unnecessary interference.

(4) The various settlements showed great inequalities *inter se*.

(5) Powers of taxation and borrowing should be granted to the provinces.

The first two are inter-dependent. As the needs of a province inevitably grow, any element in the local resources to meet these needs, which is incapable of expansion, must inevitably tend to make the provincial finances disorganised. The system of making fixed cash assignments in order to bring about equilibrium in provincial revenues and expenditure, represented just that element of rigidity which could be avoided only if the principle of "Divided Heads" was abandoned, and its place taken by a surrender to the provinces of the normally growing heads of revenue sufficient to meet the growth in expenditure. It may, indeed, be conceded that even under the existing system, as the revenues conceded are capable of growing in equal proportion to the normal growth in expenditure, the existence of a portion of the revenues which is inelastic, will not matter a great deal. "It is only when the normal increment of revenue falls short of the legitimate increase in expenditure that the fixed assignment becomes an evil and a danger." If the proportion of the fixed assignment to the total revenues in the hands of a province is unduly large, it should, according to the recommendations of the Decentralisation Commission, be converted into shares of growing revenues by gradually surrendering to the provinces the whole of the revenues under heads which are now divided.

Koviloor Acadamy

Specific Additional Grants, aroused much acrimonious criticism at the hands of Provincial Governments. The Imperial Government insisted upon a scale of development by the provinces which would have been inconsistent with the limited resources of Provincial Governments. The government of Lord Curzon had, contemporaneously with the settlements with the provinces, chaulked out a grand programme of police and education reform and agricultural efficiency, which required considerably more outlay than had been allowed for in the Settlements. As the Central Government were not prepared to upset their newly concluded settlements, the only means of accomplishing the projected reforms was to grant additional sums to the several provinces for specific purposes. In course of time this expedient came to be generally adopted by the Imperial Government whenever they had a sudden unexpected surplus, which they did not want for their own purposes, and would not use for the reduction of debt or remission of taxation. But whether the specific grant was made to carry out a specially pet project of the Imperial Government or to admit the provinces into a share of unexpected prosperity, the Central Government always prescribed the objects for which alone the grant was to be used. "Tant pis" if the Local Governments could not see eye to eye with the Imperial Government as regards the importance of the object they selected to assist. Since the Provincial Governments had normally no claim to such extra resources placed at their disposal by the bounty of the Imperial Government, the latter thought themselves justified in dictating the purpose to which alone the grant should be devoted. But this was regarded by the Provincial Governments as inducing an unnecessary amount of interference from above into local affairs, which they resented all the more as they had no voice in determining the exact amount it received from these grants. The only justification that the Imperial Government could advance was that new lines of policy were often pressed upon them by

Kovilloor Acadamy

public opinion, or by example of the more advanced provinces, which it became necessary for the Supreme Government to commend to their provincial subordinates; and as the latter cannot carry out these sudden developments from their ordinary resources, the "system of doles" becomes inevitable. The only way to avoid ill feeling was to accept the recommendations of the Decentralisation Commission:—

(1) The system should not involve any greater degree of interference by the Central with the Local Government than at present exists.

(2) The grants should be given with due regard to the wishes of the provincial authorities.

(3) They should not necessarily be assigned for the same object in all the provinces.

The objection on the score of inter-provincial inequalities was admitted but could not be remedied by the Imperial Government.

As regards the powers of taxation and borrowing claimed by the Provincial Governments, it must be admitted that without the liberty to tax their local citizens, provinces cannot always meet the discrepancy between revenues and expenditure without depending on the Imperial Government for aid. Well might they urge that for a country like India the Imperial Government could command very few taxes which would be suitable for all parts of the country equally; and even when they were, their incidence must necessarily differ in different provinces. The liberty, if given to the provinces, to tax their own subjects, will go a long way to correct inequalities in the tax burdens which the common taxes of the Central Government must necessarily involve. There has been justification in the past when Local Governments did enjoy powers of local taxation within certain limits for objects of local improvement. On the other hand there would be grave danger in conceding the right to tax, to the provinces, as it might quite possibly stimulate unwelcome provincial rivalries ending in fatal jealousies. So long as the Government remains constitutionally

Koviloor Acadamy

an autocracy, it would be politically inexpedient to grant these powers to irresponsible bodies of bureaucrats. The existing control by the Government of India is the only safeguard against an unjustifiable increase in the burdens of the people. Until, therefore, the advent of responsible institutions, there was nothing to be gained by a relaxation of existing statutory authority of the Supreme Government; accordingly the Decentralisation Commission suggested no change.* The powers of borrowing, if conceded to the Local Governments, were felt to be a menace to the success of Imperial Loans, as they both had the same market to tap. If the Provincial Governments needed extra funds for projects of great local utility, the Imperial Government were prepared to grant them overdrafts—temporary loans from their own balances. But access to the open market for purposes of local borrowing, they refused altogether.

Under these rules the Settlements made after 1911 were declared to be permanent. The governing condition was that a Local Government must not budget for a deficit, unless it can satisfy the Imperial Government that the excess of expenditure was due to a special non-recurring cause. If the deficit involves a reduction of provincial balances, suitable arrangements must be made to bring them up to the prescribed minimum. If all the balance of a Local Government is exhausted and an overdraft made upon the general balances, the overdraft is treated as a temoprary loan subject to interest at a prescribed rate, and repayble in instalments that the Surpreme Government may direct. In future the interference of the Government of India would be restricted to the corrections in Divided Heads and the totals of revenue and expenditure. The extraordinary receipts of a Provincial Government

* They fully recognise that such taxation is a necessary corollary of a fully decentralised system of finance; but pending the development of such a system, they consider that no useful propose will be served by an attempt to define its proper scope or to lay down the criterian which it should satisfy. Financial autonomy for the provinces, if and when it arises, must carry with it the power of taxation." Resolution of may 18, 1912, para. 12.

Koviloor Acadamy

must not be applied to ordinary expenditure, or to the repayment of a loan for extraordinay purposes, but only to such non-recurring objects of Public Works as the Local Government may determine upon with the advice of their Council. In framing the provincial budget the attention of the Government of India must be drawn to the existence of such special items and the use made of them.

The final stage in the evolution of the Decentralisation of Indian Finance was reached in the proposals for Constitutional Reforms submitted by the Secretary of State and the Viceroy in 1918, and fuller details thereon worked out by the dispatches and legislation following. The Report on Constitutional Reforms frankly assumes an entirely different standpoint and makes its proposals accordingly:—

"We start with a change of stand-point. If Provincial autonomy is to mean anything real, clearly the provinces must not be dependent on the Indian Government for the means of provincial development. Existing settlements do indeed provide for the ordinary growth of expenditure, but for any large and costly innovations, Provincial Governments depend on doles out of the Indian surplus. Our idea is that an estimate be first made of the scale of expenditure required for the upkeep and development of the services which clearly appertain to the Indian sphere; that resources with which to secure this expenditure should be secured to the Indian Government; and that all other revenues should then be handed our to the Provincial Governments." Para 201. P. 130 of the Report.

The old idea of the Central Government being maintained in all its strength and prestige, echoed as late as 1911 by Lord Hardinge's Government in the celebrated Delhi dispatch, seems to have—if not been abandoned—weakened preceptibly, and its place taken by the new ideal of Provincial Autonomy. As finance is the key-stone of the arc of responsible government, it is no surprise to find that almost every shade of opinion, which at all professes to support the growth of responsible government in India, demands financial independence for the provinces. The first requisite for such a separation is the abolition of the existing sysetm of "Divided Heads" of Revenue, and all the

attendant troubles of making a proper division and avoiding too much interference on the part of the Government of India, looking to the needs of more backward provinces &c. The argument, that the inevitable precariousness of the most important heads of revenues is very considerably neutralised by spreading the risks over the different provinces under the system of divided heads, was not considered sufficiently strong by the authors of the Report to upset their whole scheme. Of the most important Divided Heads, Land Revenue, Stamps, Excise, Income Tax and Irrigation, the Reforms proposals make Land Revenue*, Judicial Stamps, Excise and Irrigation works wholly provincial, leaving General Stamps and Income Tax to be wholly Imperial. † Famine expenditure ‡ was to be charged on the provinces, each province, liable to famine, being required to make allowance for this item on the basis of its past liability. The amount thus set aside must not be spent on ordinary purposes

* The Meston Committee on Financial Relations has allowed the general Stamps Revenue to be also provincialised, leaving Income Tax to be an entirely Imperial Head. In the final arrangements, the Government of India has conceded to the Bombay Presidency the Income Tax receipts in so far as they exceed the Standard Collection of 1919—20 in that head. The entire scheme of financial relations now obtaining has been violently opposed by the provinces—particularly Madras and Bombay.

† As regards the provincial section of the Land Revenue, it was urged that such a course would involve a deficit for the Government of India. But the Report meets this plea by charging Famine and Irrigation Expenditure on the Provincial Governments. The authors of the Report could not but see the advantages of Land Revenue being provincialised since it plays such an important part in district administration. Also see Para 203 Ibid.

‡ "We have, indeed, been told that Income Tax is merely the industrial or professional complement of the Land Revenue; and that to provincialise the latter while Indianising the former means giving those provinces, whose wealth is predominantly agricultural, an intial advantage over a province like Bombay". But the authors of the Report saw the inconveniences of provincialising Income Tax for the sake of uniformity of rate as well as for not doubling the tax on enterprises registered in one province and earning their income in another. They held that equality of treatment as between different provinces must be judged on the whole settlements, not individual items of revenue.

Koviloor Acadamy

but may be used to swell the balances or for some defensive purpose. If the distress should be too great for provincial resources, the Government of India may intervene; but their aid should take the from of a loan, permanent or temporary, according to the needs the moment. §

If these proposals were adopted, the Government of India would be faced with a deficit, and the Report decided to meet the deficit by fixed contributions from the provinces." On the basis of the Budget figures for 1917—18 the Report calculated that after all the Divided Heads were abolished, and provision made for Irrigation and Famine Expenditure in the Provincial Budget, the Provincial Surplus would be Rs. 15.64 crores, while the Imperial deficit would be Rs. 13.63 crores. "We would propose to assess the contribution from each province to the Government of India as percentage of the difference between the gross Provincial Revenue and the gross Provincial Expenditure". ¶

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§ Para 204 Ibid.

II. "We agreed that in fixing contributions it was undesirable and unnecessary to pay regard to the growing revenues of the provinces. We agreed also that the contributions should be of fixed amounts. We saw that equality of contributions was impracticable, because we have not a clean slate. Inspite of the variations in income which result from the Permanent Settlements in some areas, stereotyped scales of expenditure have grown up, which makes it useless to attempt any theoretic calculations on which any uniform contribution from the provinces could be based". Para 206.

¶ The following table, given in the Report para 206, shows the amount that the different provinces would have to contribute if the principle given above were accepted :—

	Gross Revenue.	Gross Expenditure.	Gross Surplus	Contribution.	
	Rs.	Rs.	Rs.	Rs.	
Madras	13,31	8,40	4,91	4,28	63
Bombay	10,01	9,00	1,01	88	13
Bengal	7,54	6,75	79	69	10
U. P.	11,22	7,47	3.75	3,27	48
Punjab	8,64	6,14	2.50	2,18	32
Burma	7,69	6,08	1,61	1,40	21
Bihar & Orissa ...	4,01	3,59	45	39	6
C. P.	4,12	3,71	41	36	5
Assam	1,71	1,50	21	18	3

N. B. The figures are in lakhs of rupees. The last column shows the net surplus still remaining to the province.

Continued on nextpage

This manner of obtaining contributions is open to severe objections in that it makes the contributions of the different provinces so utterly unequal.

In consonance with the general scheme of the Reforms, the report concedes the right of taxation to the provinces, as well as the power of borrowing. With the province made independent of the Government of India, the latter cannot be saddled with financial solvency of the provinces. If the schemes of provincial development are not to be stifled for want of funds, the power of additional taxation is a necessary corollary. But, that provincial taxation may not conflict with Imperial taxation, it would be necessary to form a schedule specifying on what objects the provincial authority may tax, and on what others the Supreme Government may tax. The Report gives a certain number of reserved subjects for taxation to the provinces, and makes the Government of India a sort of a residuary legatee in this matter. Within the scheduled list, the provinces should be free to tax, subject to a veto on the part of the Government of India. Outside the listed subjects too, the provinces may tax, provided they obtain the previous sanction of the Government of India. The borrowing powers are proposed to be given under much more stringent conditions. The report requires the powers of borrowing to be ordinarily exercised through the Government of India, and the distribution of the monies thus raised to be made by the Government of India, or by a committee consisting of representatives of Provincial as well as Central Governments. The final touch of financial autonomy of the provinces is provided by the suggestion that the balances of the Provincial Governments be no longer

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On this the Government of India in their first Report Dispatch observe:— "When we look at the result however, its equity is obviously liable to attack. From Madras we shall be levying nearly five times as much as from Bombay: and from the U. P. nearly five times as much as from Bengal." They accepted this principle of contribution at all because "no other device would leave each province with a surplus of it own, and consequently no other device is open to us." Para 61 of the dispatch.

Koviloor Acadamy

under the rigid control of the Government of India and that the existing rules about minimum balances, deficit budgets and the like be abrogated. The only control, if it can be so-called, of the Government of India, in the matter of balances in the future, would be as regards the accumulation of Famine Assignments of the provinces, or the further drain upon their balances by the provinces.

Limits of Financial Autonomy. Criticism of the Suggestions in the Reform Proposals.

These suggestions accomplish a revolution in our financial organisation. The subjects that had been made over to the Provincial Governments from the earliest times, were of the utmost importance to the country. The first instalment of decentralisation was made, as observed already, with a view to secure the convenience of the Central Government. But it was soon perceived that so long as Provincial Finance remained subordinate to the grave pre-occuptions of the Imperial Government—whether it was war, famine or any other emergency—the material development of the country could not proceed at a rate that may be desired. The removal of the Imperial control, the reduction of the occasions of Imperial interference, thus became the one demand in which the people as well as the Governments became increasingly interested and united. On the other hand political awakening began to support the same demands, though for different reasons. The far-sighted practical politician could not but realise that. In the nature of things, the gradual admission of the Indian people to an effective share in the Government of the country would come more easily in the narrower sphere of the Local Governments, which, however, from the point of view of the welfare of the people, was far more important than the Central Government. The latter, concerned with Imperial, international and inter-provincial obligations, would necessarily continue to be under external control or influence, far longer than the Provincial Governments. But, that this control may prove effective, the power

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of the purse is indispensable, and hence the almost unanimous demand for a financial autonomy to the provinces.

The system outlined above has some unavoidable limitations. Under it the provinces do not become independent states, or even strong members of a federation. The Government of India would still retain the most important factors of material development: Railways and Post Office, Customs and Currency, into its own exclusive control. They still continue to retain their power of veto on, and in some cases of previous sanction to, proposals of provincial taxation and borrowing. They remain the residuary legatee of all unspecified sources of taxation, and may demand additional contributions from the provinces in the event of a war. These are serious limitations and yet inevitable. If the most serious cause for inter-provincial jealousies is to be avoided, if the development of Indian industries by fiscal aid is to be accomplished, Railways and the Customs policy must be in the hands of the Government of India. If the inter-national prestige of the Government of India is not to be weakened, the right to declare war and make peace must also be reserved to the Imperial Government of India, though one of the inevitable consequences of such a right would be direct or indirect addition to the tax burdens of the people in all the provinces at the hands of the Government of India. This may be deplored but is inevitable.

But the gravest defect, in our opinion, in the system outlined above, is the proposal for provincial contributions to meet an Imperial deficit. We consider it of the utmost peril to make the Imperial Government a pensioner of the provinces. Apart altogether from the administrative difficulties of fixing an equal, or at any rate, an equitable standard of contribution, which is by no means an insignificant difficulty, we think the dependence of the Central Government on the provinces, for contributions—which, the provinces will

Koviloor Acadamy

naturally consider are demanded for wasteful purposes—is the surest way of bringing the Central Government into disfavour and discredit. We are not considering here the purely bureaucratic idea of a strong Central Government for repressive purposes, or jingoist objects, or class interests. We regard the necessity of a strong Central Government as of the first importance because India will have to undertake in future great projects of Social Reform, which in the provincial legislatures may be defeated by vested interests or strong sectarian prejudices; which only a strong Central Govenrment acting independently can carry out. Take the case of a comprehensive scheme of Labour Legislation; housing of the workmen; provision for their pensions in old age; insurance in sickness or disability; minimum or standard wages. It is not entirely beyond the bounds of possibility that the strong influence of the employing classes in provinces like Bombay or Bengal may obstruct such legislation in so far as it seeks to make the employer bear his fair share of the burden and not throw it on the general tax-payer, or defeat the proposal altogether. The combined common sense of the Central Council may be expected to neutralise the influence of local vested interests if only the Central Government is in a position to take action directly. Then again, there is the question of backward provinces. We cannot ignore the fact, however unpleasant. We cannot allow important blocks of the country to lag behind in the standard of material prosperity and comfort. And yet, if the backward provinces were to depend entirely on their own resources, they may not for a long time be able to provide for the local subjects all the facilities that go to make up civilised life. We do not believe that absolute uniformity of conditions is attainable, or even desirable; but we must insist on a certain minimum standard, below which we cannot, in the national interest, allow any province to fall, and up to which certain provinces may not come of their own resources. We would not, on any account, restore the mischie-

Koviloor Acadamy

vous system of Imperial doles. We would require the Imperial Government to be able to provide this bare minimum off their own bat, regardless of provincial ability in the matter. And this the Imperial Government cannot touch if its finances are in a chronic state of deficit, if they depend for equilibrium invariably on provincial contributions. If the system of doles is bad in the case of Provincial Governments, the system of contributions will be worse for the Imperial Government. The former had at least the justification that whenever the dole was granted it was for some specific subject of local benefit. The latter will unavoidably appear in the provincial eyes so much waste. If self-sufficiency is desirable for the provinces, it is in our opinion still more desirable for the Imperial Government, which is to be responsible for the national credit of India in the future and the national debt of India of the past; which is charged with national defence and entrusted with the task of national improvement in such important direction as transport, currency, communications &c.; which will be the mouthpiece of India in the Council of the Empire, in the Court of the League of Nations.

It must be noted that we have made no allowance for increased receipts from public property, like forests, or land or irrigation and navigation works. Our suggestions of entirely independent finance would no doubt involve at first additional taxation. But additional taxation is not invariably an evil. If only we could be sure that the proceeds would be employed exclusively on purposes of national development, we should have no objection to suggesting a budget of Rs. 225 to 250 crores on either side as, indeed, the foregoing suggestions would amount to. Emphasis on retrenchment is the child of distrust in the spending authority, matured on the spectacle of wasteful public expenditure. We do not deny the need for such emphasis in the conditions of modern finance; we would only wish that a due sense of proportion be observed

in advocating one or the other of the two means to secure equilibrium in public finance.

In this critique of the scheme of Provincial Finance— as outlined by the Reforms proposal— we have deliberately refrained from discussing the constitutional aspect. In the next chapter we have made a few brief remarks on some of the novel features of the proposals. Here we may draw attention to only one aspect which relates to the subject under discussion. The one thing that has emphasized the need for financial independence is the belief, that without it provincial autonomy would be a farce, and Responsible Government impossible. **But the only real commencement of a truly responsible Government of India can be made when the Supreme Government is Indianised entirely.** So long as the Supreme Government is outside Indian control, it will tend to become a champion of class interests, a bulwark of absolutism. We who believe in an Indian nationality, cannot advocate the abolition of the Central Government. But we cannot consider that we have made any real progress towards responsible democratic government, so long as Indians do not control the Imperial Government of India. To us the demand for Provincial Autonomy in the past was acceptable only as the first step for preparing the people in the task of self-government. We welcome it today as a good device for political education and administrative apprenticeship which the Indian people need. But we cannot be blind to the fact that our provinces, as they are, have no principle of unity in them; that too great a prominence to the idea of Provincial Autonomy must logically lead to further dismemberment, which would be economically ruinous and politically suicidal. The system of Provincial Finance outlined above has in it germs of intense provincial jealousies in the future. We would have none of it. It still leaves a very considerable measure of Indian revenues and expenditure beyond Indian control. We cannot consider it advantageous to India. Without thinking at all of any military

Koviloor Acadamy

rivalries with Japan or Russia, we must still have a strong Central Government to accomplish most economically the material regeneration of the country. If this reasoning is sound, we would have to undo much that now appears as a move in the right direction. And nowhere, we think, will that tendency assert itself earlier, or more unmistakably, than in the region of finance.

Koviloor Acadamy

The Ethics of Public Borrowing

We have already referred once or twice before in these supplements, incidentally, to the economic aspect of the public debt of the Government of India. Let us now consider more particularly the entire problem of the Indian Public Debt, with special refereuce to the ethical side of the question. But the premise must be made that in this, as in many another socio-economic question, it is impossible always to keep asunder ethics from economics. They mingle with and react upon one another as night and day. It is difficult to demarcate frontiers. Moreover, in this instance, it would be better to consider the elements of borrowing, both public and private, and determine the respective implications of each, by way of a preliminary to a closer study of the main problem.

The pratice of borrowing by great states in modern times has become so common that we are apt to forget the relatively very recent origin of this use of public credit, and also to misunderstand its nature. If by credit we understand the power to obtain command over another's capital or wealth, acquired with the free consent of the true owner in return for a promise to reimburse at a later date, together with a regular payment of a stipulated interest, we must recognise some important fundamental differences between public and private credit, and the consequent difference in

the treatment of public and private indebtedness. In the case of private individuals in all ordinary borrowing, the borrower must offer to the creditor some security—a mortgage or a pledge—out of the borrower's existing or expected wealth, without which the loan operation would be difficult. In the case of public borrowing by the State, it is, as a rule, impossible for the State to alienate any portion of the public domain, even if the State possesses one.

For the liquidation of German indebtedness, the proposal to hypothecate the German railways and public mines is now frequently heard. In a manner the conditions of Reparation in the Versailles Treaty suggest an indirect hypothecation of the German national resources. It remains to be seen how far the sovereignty of the German State will in practice prove compatible with these conditions, how far the League of Nations would enforce or modify the Versailles Treaty in this particular.

In fact in most cases the effective cause of borrowing by the State is the absence of any realisable and alienable wealth belonging to the Government as representing the State. This great difference between a private borrower and State borrowers leads to considerable divergences in the contract of Loan. The creditor in the case of private borrowers can in the last resource, realise his claim out of the specific security obtained at the time when the loan contract was made; but there is very little, if any at all, possibility of this nature in the case of the indebted States. Again, while a private borrower, given the will and the foresight or prudence required, can make regular and immediate provision to meet his debt when it should fall due by increasing his efforts to produce or by cutting down expediture, the debtor state cannot always and readily adopt such a course. More often than not its loans have been contracted for purposes which have no substance or surplus behind. And the Public Expenditure of the State admits of no rapid and proportionate curtailment such as

would guarantee the repayment of the Loan when due. Works may have been commenced or policy adopted which could not be altered, and, therefore, expenditure in connection with them cannot be reduced. Public servants again, may have been enagaged who cannot, without serious risk of chronic unemployment and wide-spread misery, be dismissed to afford relief to the Public Expenditure. Hence, though the State enjoys the advantage of being sole judge of its own solvency, though it admits no limits to its revenues save those imposed by the absolute needs of its citizens, it is yet in a markedly difficult situation in the matter of retrenchment to repay its debts.

Such being the differences between the nature of private borrowing and that of the State, the question next arises how far and on what grounds is it advisable for the State to borrow. If on every occasion that the receipts do not suffice to meet the disbursement recourse is had to borrowing, the limit will soon be reached beyond which not all the exercise of the sovereign powers of the State would suffice to meet even the interest charge on the new debt added every time. Under such circumstances the State will be faced with an annihilation of its credit altogether. The common device of incompetent or timid financiers to borrow on the pretext that the deficit in the budget is due to extraordinary expenditure, not likely to recur in the subsequent years, and therefore not fit to be charged on the current revenues, is subversive of all sound principles governing the management of public credit. An outlay, which in a given year appears to be extraordinary, e. g. reorganisation of the army, or the cost of a military expedition, or of famine, may yet be recurring if not in the same form or the same object in the subsequent years, at least with the same effects as far as the Public Purse is concerned. But even granting the non-recurring character of such extraordinary expenditure, that by itself is no justification for a recourse to

borrowing rather than looking to current revenues to finance such an outlay. In England, the home of sound finance, the opinion seems to have gained ground ever since the time of Wm. Pitt, the younger, that it would be preferable, as far as possible, to finance a war by increased revenue than by loans; and what applies to war applies to all other apparently extraordinary non-recurring expenditure. Gladstone, in his Budget Speech of 1854, has made the principles governing War Finance classic. The line of distinction between what outlay should be met by loans and what by taxation may be said to lie along the possibilities of benefit to the subsequent generation. Borrowing would be necessary as well as commendable if from a contemplated outlay the generations to follow are expected to derive material benefit. Borrowing would be ruinous if incurred only to cover up the waste caused by our generation in the eyes of our posterity. The eighteenth century opinion that all public borrowing is beneficial is thus without justification. It may, indeed, be that the revenues of the State are for the moment so fully charged with the ordinary expenditure that for that year at any rate borrowing may be inevitable; but if so, such a loan must be for the shortest possible term, and provision must be made by the State to pay it off from the increased current revenues. No debt incurred to cover a temporary deficit in the ordinary income should be such as to accumulate and increase till its interest charge should come to be so great as to absorb all possible increase in the revenues.

The proper justification for the use of public credit, then, is to be found in those objects of public utility, the cost of which is too large and too sudden to be met out of current revenues, and the result of which is expected to be such an addition to the current revenues as to render the burden of the debt insignificant. As all public borrowing is an inroad upon the capital of the citizens, which is thereby diverted from productive purposes in the hands of private individuals,

Koviloor Acadamy

the State would not be justified in causing the diversion, unless it is expected to accomplish a similar object which private individuals may not attempt because of its vastness or unfamiliarity. It may sometimes happen that public borrowing for objects of utility or rather for reproductive purposes* would not meet this test, if we consider only pecuniary results to the State itself; but if as the consequence of this extension of public activity, there is an addition to the wealth of the community, this indirect gain to the State may afford sufficient justification for the original borrowing. And there are other advantages of the State utilising its credit for such purposes. It gives an impetus to the instinct of saving and consequently to the formation of capital by affording safe channels for investment. Its operations engender, also, the habit of dealing in securities or intangible wealth. Only care must be taken that by too frequent a recourse to borrowing the State should not destroy all spirit of private enterprise, or create unnecessary fluctuations in the market for capital leading to unjustifiable speculation.

If public indebtedness should have been incurred exclusively for productive purposes the question of paying off the debt has hardly any practical interest. The question must no doubt remain very important in every case of a debt incurred for purposes which leave no tangible assets behind it to meet the charge. Provision, whether by means of a sinking fund or other specific reserve, or by additional taxation, must be made to pay off such a debt; for the sooner this useless burden is removed the better for public credit and general welfare. But in the case of debt incurred for objects indicated above, the surplus revenues, after a certain period, would suffice

*Borrowing only for productive purposes would not, it may be suggested, cover the case of borrowing for railway construction; for, strictly speaking Transport is not production but only a facility in exchange. Borrowing for productive purposes is not necessarily the same thing as borrowing for objects which will ultimately pay to the State.

to bear all charges, and provide for liquidation automatically. If, under such circumstances, no effort is made to pay off the capital even though there is a surplus, the State may have other objects in view, or some special justification. In any case there would be no need for anxiety so long as the surplus created is not what the French writers call "gaspille." In a society in which some kind of collective enterprise is accepted, but does not exclude private enterprise altogether, it would be wise for the State to clear its property as soon as may be of all charges including those for capital redemption, particularly if the programme of public borrowing for similar purposes is a continuous one. It would not be wise to suffer it to be impaired merely by over-confidence or indifference. While no special effort is needed, no additional taxation has to be imposed, it would yet be prudent to apply the normal surplus due to such enterprise to pay off the debt charge.

It may, however, be observed that the present universal practice consists in giving a collective guarantee of the credit of the State as judged by its total revenue of resources, without any attempt at specification, without any idea of setting apart given revenues for given objects. The practice of consolidation is no doubt advantageous, particularly in a rich State, with a variety of obligations incurred at different times for different purposes. As in such a case there would be a possible chance for the weakest link in the chain to determine the strength of the entire chain, consolidation helps to prevent such weakness from becoming apparent to the prejudice of the credit of the State. As no State is quite free from some part of its debt being for wasteful purposes, the pratice of consolidation may on the whole be commended. It has, moreover, another advantage in that it helps the State to avail itself of any fall in the rate of interest, and thus reduce its total burden by way of interest. The practice, if

Koviloor Acadamy

uniformly adopted, would prevent the automatic liquidation of that portion of the debt which may have been incurred for productive purposes. In that case the only safe recommendation would be analogous to the policy followed in England before the last great War: Apply all the available surplus for the redemption of the debt, arranging the normal standard of revenue and expenditure so as usually to leave a surplus.

The Origin of Indian Debt.

The public debt of India, as it exists today, is the creation exclusively of British rule in this country. The previous governments had to live necessarily within their income, as much from the ignorance of the nature and use of public credit as from the impossibility of putting it to proof in a well ordained manner, even supposing the earlier financiers understood the character and aim of Public Credit. India had, therefore, no National Debt prior to the establishment of the British rule in the country. The East India Company, as already observed elsewhere, was a notorious offender against the canons of sound finance. Whenever its revenues failed to suffice for its expenditure it had recourse to borrowing. When the trading charter of the East India Company expired in 1835, the total rupee debt i. e. the debt incurred in India—was Rs. 33.295 crores as the result of wars and conquest. In the next fifteen years, the Afghan and Sikh Wars combined to raise the debt by 1850 to Rs. 45.336 crores, which remained nearly at the same level right upto the Mutiny in 1857. The heavy expenditure involved in suppressing the Mutiny caused a considerable increase in the total indebtedness, amounting in 1859-60, the year following the Mutiny, and the first year under review here to Rs. 63.555 crores. On the transfer of the Government of India to the Crown, the Crown assumed this debt of the Company in addition to a payment of £ 12 million to the proprietors of the East India Stock, which sum

was also added to the debt of India.* The sterling debt during the Company's regime was insignificant.†

In 1858 at the time of the transfer, the East India Stock of £12,000,000 was provided for by a special fund, which would have paid off the amount by 1875. Though this debt was actually paid off in 1874, the fund for the purpose was less by £4,579,416 for the amount in 1874; and consequently the sum was added to the permanent debt of India.'‡ But the whole of this transaction relating to the transfer of the debt incurred by the Company to the Government of India under the Crown has been challenged from the standpoint of political justice. The debt had been piled up to effect the conquest of India, and when the Empire was acquired by the Crown, the cost of its acquisition was saddled on the Indian exchequer. In the opinion of Mr. Dutt § an impartial judge discussing this

* *A propos* of this debt the Welby Commission observes: "The history of this debt during the last 60 years conveys an interesting lesson in finance. From 1838-9 to 1861-2 deficit was the rule and surplus the exception, for 19 years of the former were arrayed against five of the latter. The statistics of the Company leave much to be desired in precision and the figures of the early years must be taken only as approximate.....The permanent debt of India, whether raised here or in India amounted on the 30th April, 1812, to £ 33,577,414. On the 30th April, 1857 immediately before the Mutiny, it amounted to £ 51,327,958 an increase of 53 p. c. in 15 years. The 30th April, 1862 marks the close of the Mutiny expenditure, and the permanent debt had then risen to £ 97,037,062 an increase in 20 years of nearly 190 per cent."

N. B.—Owing to imperfection in the statistics the figures for this period as given by different authorities do not agree. See *inter alia* Wilson's first Budget statement, Dutt's India in the Victorian Age, Strachey (op. cit.) the Statistical Abstracts, &c. The Welby Commission figures are from a Parliamentary Return of 1881.

† Of course the rupee and sterling figures are not to be understood as showing a difference in the proprietorship of the debt, making the rupee debt belong to Indians and the sterling debt to Englishmen. Though no definite information is available, it is probably quite true that a considerable proportion even of the rupee debt was held by Englishmen in England. One can easily understand that in the early years of the Company's rule they could not have persuaded Indians to lend to the Government.

‡ Para. 11a of the Welby Commission Report.

§ P. 357, Dutt. p. o. cit.

debt would have ruled that no claim lay against India as to £ 69½ million of the debt which was "part of the unjust demand of an annual tribute which India should not have paid." The cost of suppressing the mutiny by British troops, amounting to £ 40 million might have been allowed against India, subject to a deduction for the expenditure incurred by India on the wars waged for British Imperial purposes—wars with Afghanistan, Persia or China. The Public Works Debt of £ 24 million would also, he thinks, have been allowed against India, subject, possibly, to injunctions against further borrowing to meet wasteful guarantees on Railways. "A hundred millions of the so called Public Debt of India would thus have been struck off as not justly due from India.....There would have been no National debt; for there need be no National Debt in India."

Without quite adopting the view underlying the last statement, we may yet observe that the offence of the Company was all the greater, because while they went on borrowing for wars and similar wasteful purposes, they made no provision to pay off the debt. Some attempts at funding and conversion were made during the closing years of the Company's rule, but they were of no avail. The interest on the rupee debt was in 1820 at the rate of 6% and the debt bearing this higher rate was not paid off till 1858-59. From 1823 to 1853, the Company had borrowed at 5% and between 1824 and 1835 small amounts had also been borrowed at 4% . The bulk of the 5% debt was converted into 4% in 1854, but the shock to the credit of the State caused by the Mutiny necessitated more borrowing at the higher rate of 5% which was not finally paid off till 1871. In 1859 the Government of the Crown had to borrow at 5½% and the loan was not paid of till 1878-79. The 5½% loan was, however, converted in 1871 into 4½%, so that after 1878–79 practically the whole rupee debt was at interest varying between 4% and 4½ %. The 4½% loan was converted by 1893 to 4% with the exception of a sum of Rs. 1 crore borrowed from the Holkar Durbar for the Indore State Railway and not convertible till 1970. In 1893 commenced

the first 3½% debt, and in the next year the bulk of the 4% debt was converted into this lower rate debt. In 1896-97 a new loan of Rs. 4 crores was raised at 3%, but in 1900 the rate was again raised to 3½ % which remained the pravailing rate until war broke out in 1914. Thereafter there was a steady crescendo of rates that has been just this year barely checked. An English critic objects to this view as being unjust. He considers that the British crown, taking over the Government of India from the Company, was in the same position as a capitalist or landlord buying an estate which he thinks has immense possibilities, but which needs considerable outlay for reclamation works before the estate could be made to pay. As the capitalist does not wish to obtain any profit for himself from the estate, he could not be blamed if he charges the estate at least with the cost of reclamation. We cannot agree to this view of the case. It is open to argument whether the British Crown—the capitalist—has not derived directly or indirectly, considerable gain for the British public out of this rich estate of the Indian Empire, even if we accept that the Company's debt was incurred for anything at all similar to reclamation. Indians will find it difficult to adopt this view. In any case, granting the whole position, it only comes to this that the British Crown should not have been charged with the East India Company's debt. It does not show why India should bear that debt. Possibly, it would be most in accordance with political justice to say that the debt should have been borne by neither India nor England. The creditors must be taken to have lost their claim on the demise after insolvency of their debtor—the East India Company.

Origin Of Productive Borrowing.

Productive borrowing entered into the scheme of the East India Company's Finance to a very small extent towards the close of its regime. The principles which ought to govern such borrowing were not, however, properly understood at first. The only productive outlay by the Company was on Irrigation canals in the United Provinces and the Punjab, which

Koviloor Acadamy

was estimated to have cost in all about Rs. 5,40,00,000 by 1862. In 1867-8 a new policy was adopted. The State from that time determined to charge all expenditure on Irrigation and construction of Railways by the State to a capital account. The item of Debt was split up into two in the Public Accounts, the "Productive" or Public Works Debt, the interest on which was not to be charged under the general heading of "Debt," but under the Railway Revenue account and Irrigation. The remaining portion of the Debt was to be called Ordinary Debt, interest on which was to be charged under the general heading of Debt. In working out the new Policy it was found, that as the Government of India had provided for no sinking fund, and as no positive Law required the application of the revenue surplus to the redemption of the Debt, while the great undertakings of Public Works demanded considerable and recurring expenditure, it was most convenient to devote all spare or surplus revenue, not to the purchase of Debt with a view to its cancellation, but to capital expenditure on works for which the State would otherwise have to borrow. In order, however, to show accurately the ammount of this capital expenditure, the revenues thus expended are charged to the "Public Works" portion of the debt and deducts a similar amount from the ordinary debt. If in any year Rs. 1 crore can be saved, the amount is spent on Public Works, and a corresponding addition is made to the Public Works Debt, and a simultaneous and equivalent deduction from the Ordinary Debt. The effect is the same, but the cost of a double operation is avoided, and the revenue surplus applied automatically to Productive or Public Works purposes.

The Ordinary Unproductive Debt of India Upto 1920.

The Ordinary Debt, whatever its justification, was by the operation described above steadily reduced even though the Government of India have not followed the English precedent in this respect of buying debt for purposes of cancellation. Between 1860 and 1920 it has frequently been added to by the three

Koviloor Acadamy

main factors of Famine, War and Exchange, while it lasted. The following table,* however, shows that in spite of much additions the total debt was upto 1914 regularly reduced, with a corresponding increase taking place in the Productive Debt: in so far as revenue surpluses were devoted to these purposes. During the European War the unproductive debt was very considerably increased, first in 1915–17 to meet the requirements of the Government of India, and after 1917 in order to make a War Contribution of £ 145 million to the United Kingdom. The policy of borrowing during the War had, if at all, to be carried out in India, as the English money market was already too heavily strained by similar operations of the British Government to permit any considerable borrowing by other bodies. But borrowing in India apart from the intrinsic wisdom or necessity of such a course as between England and India in view of the past history, inevitably led to an undesirable deflection of Indian capital from more productive and legitimate channels. For the first time in a hundred years an opportunity had occured for the development of Indian Industries by Indian capital; but that opportunity was baulked by a policy of heavy borrowing, often under considerable and illegitimate pressure from official quarters. The evil might have been borne without protest as an inevitable misfortune of war-time, could the people of India have consoled themselves that the service

*Date.	Year.	Ordinary Debt. Rs.	P. C. of total.
31 March.	1888	109.5	48.5%
do	1893	97.5	37.14%
do	1898	105.2	36%
do	1903	88.7	28%
do.	1908	56.1	15.24%
do.	1913	37.5	9%
do.	1914	19.2	4.6%
do.	1915	3.3	.8%
do.	1916	3.0	.7%
do.	1917	10.5	2.5%
do.	1918	133.3	24%

Koviloor Academy

rendered would have been at all adequate. But a policy which might have put back the Indian industrial development by a generation could not, even if it had been realised to the fullest desired extent, have borne the British War Expenditure for more than a fortnight in 1918. And, even so, India might have endured this borrowing in silence had there been no alternative. As a matter of fact the British Government was borrowing heavily in the United States, which had immense resources to offer to its allies. The Government of India could have borrowed in America, either directly themselves, or taken over a part of the debt of the British Government equal to the promised contribution, much more easily than in this country. The service to the Empire would have been the same while the disturbance to Indian Industrial development would have been completely avoided. As it was, the Policy of Borrowing in India was continued at the expense of serious inflation in prices till its logical conclusion had to be accepted in 1918—prohibition of all industrial investment except under license. No one can say what would have been the ultimate consequences if this policy had lasted a couple of years more. Luckily, however, the war came to a close in 1918, November and this disastrous policy was shelved.

The Productive Debt of India

Ever since 1867 when the policy of borrowing for Productive purposes was first introduced, the Government of India have remained heavy borrowers for such purposes. In the earlier years when the Railways were a losing concern, the Government policy of borrowing naturally excited some comment; and the defects, in the system of accounts, bringing about a needless confusion by frequent transfers from Productive to Ordinary Debt and vice versa, by meaningless distinction between Ordinary and Extraordinary outlay, gave point to the criticism. Later on the Exchange troubles led to acrimonious controversies about borrowing in England and added to the sterling obligations thereby. Since the beginning of the present

Koviloor Academy

century, owing to the profits shown by the Railways and Irrigation Works, the dispute about the wisdom of borrowing has lost much of its old interest. We have already discussed, in connection with the sections dealing with Railways. and Irrigation, the extent to which borrowing would still have to be resorted to, as well as the justification of that policy in the past. Here we need only observe that the present attitude towards this question does not look upon borrowing as such as reprehensible, while the limit of borrowing is to be found only to the extent to which the money markets of the world would subscribe the funds.

But connected with this question of borrowing for Productive purposes, is the more difficult problem of the market for borrowing. The Company's Government usually borrowed in India whether from its own servants or from the general public. But since the introduction of the guarantee system for the Railways, the practice of borrowing in England on a large scale every year was started, and continues even to-day, but for the stop put to it by War conditions in England. It was assumed that the conservatism of Indians, coupled with their want of familiarity with the new undertakings, would render the prospects of borrowing in India too slender to be thought of; and on this assumption—not entirely without foundation—upto 1880 no effort seems to have been made at all for borrowing in this country. The question had, however, to be reconsidered after that date, in view of the continued fall in the gold value of the rupee, and the consequent increase in the interest charge to be paid in gold on the sterling loans. In his Financial Statements Sir E. Baring distinctly urged the undesirability of borrowing in England, as it would introduce a most unwelcome element of uncertainty in the finance of the country. The Government were genuinely alarmed at the size of their gold obligations, and a Parliamentary Committee of 1889 authoritatively put on record the political and financial advantages of borrowing in India, if only the requisite funds could be forthcoming in the country. That body, however, recommended, that if the difference between the rates

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of interest in India and England were so considerable as to afford compensation for the disadvantages attendant upon borrowing in England, loans should be raised in England to enable the Government of India to carry out their general scheme of works undertaken for the public benefit. * Since that time, with the exception of two loans raised in 1885 and 1886 for £ 7,700,000 which were for a rate of interest sufficiently low to afford compensation for the disadvantages of borrowing in England, no loans have been raised for specifically Productive purposes. Such borrowing, as has since 1875 taken place in England, has been for the purchase of specific Railways, or for advances to Railway Companies which would otherwise have borrowed in England by raising debentures, or for paying off an existing sterling loan in order to reduce the charge for interest. † These, in magnitude, have been very considerable; but the present policy of applying all revenue surplus to such works as need capital outlay and are expected to yield a net return after paying all working expenses and interest charges, has saved additional borrowing in England. The Mackay Committee has recommended since 1908 further borrowing when required, for Productive purposes, in England.

It has already been observed that the distinction between rupee debt held in India and the sterling debt held in England does not necessarily correspond to the debt held by Indians and that held by Europeans. According to Mr. Jacob's calculations as placed before the Welby Commission, out of the total debt

* See Welby Commission. para 116 loc. cit.

† In 1893-4 a loan of £6,00,0000 had to be raised in England as in that year the Secretary of State could not obtain the money needed for the Indian Home charges by the ordinary methods of sale of Bills. It was estimated by the Government of India in 1895 that whenever in any single year they wanted to borrow more than 5 crores, the Indian money market would not be equal to the strain, and recourse must be had to borrowing in England. "The security" says the Welby Commission, "of the Government of India is too good to induce Indian capitalists to invest in Government stocks, for the interest offered by Government is lower than that which can be earned on good investments in the country. If money borrowed in India is to any extent found in England, the advantages of borrowing in India are proportionately neutralised, for investors here will only subscribe on terms which will, in their opinion, secure them from the fluctuations of Exchange."

Koviloor Acadamy

of Rs. 103 crores borrowed in India, Rs. 25 crores was held in England, Rs. 48.00 crores by Europeans in India, leaving only about Rs. 30 crores as held by the natives of this country. The whole of the sterling debt is held by Europeans even today. In 1901 it was estimated that about 58.8 p. c. of the rupee debt, including Rs. 19.29 crores held in England, was held by Europeans and about 41.2 by Indians. In 1911 the percentage held by Indians was estimated to have risen to 47. Today, after the huge War Loan operations of 1917–19, we may estimate that 60 p. c. or more must be held by Indians, leaving only 40 p. c. or less to be held by Europeans.

The existence of our sterling debt, and the pre-War pratice of borrowing large sums in England, combined to prove to us that the possibilites of the Indian money market have not been sufficiently considered by the Government of India. Before the War the Government had estimated that in any single year more than Rs. 5 crores could not be borrowed in India with ease; and so every programme of borrowing in excess of that sum was placed before the international financiers of Europe. During the War in the very first year Rs. 6 crores were raised, without any great pressure or any considerable improvement in the rate of interest; and in the years that followed Rs. 25 to 40 crores could be raised in a single year without much difficulty, over and above considerable amounts borrowed for short periods on Treasury Bills. There was indeed evidence of undersirable pressure in some quarters, and considerable improvement in the interest allowed. But, making due allowance for these factors, the fact still remains that for any object, which could appeal to the masses of Indian people or in which Government takes special interest, the limits of available funds in India are by no means quite so low as was once assumed by the Government of India. Again by a travesty of argumentation, it used to be maintained that the credit of the Government of India is too good, the interest offered by them too low to attract Indian capital. But if the security offered by the Government of India was so very good it would be specially important to gives its

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benefit to the people of the country in the first instance, if necessary, by raising the rate of interest; for even if the rate of interest be high, if paid in India, the Economic problem would not have been quite so acute as it did become by the constant addition to the sterling debt. In any case, the fact remains that the Government of India, apart from the War, has never seriously tried to investigate the possibilities of the Indian money market, and *a fortiori* never attempted to develop those possibilities such as they are. The result has been that while the Government seem to have escaped a probable burden of a slightly heavier rate of interest, the industrial and commercial community has had to bear that burden of higher rate to the prejudice of the country. If the Government of India, while borrowing themselves every year, had paid any attention to the development of financial institutions like Banks in India ; if the Banks had been encouraged to attract and collect the realisable wealth of the country for investment in productive enterprise under the patronage of the State; if the necessary degree of mobility had been imparted to the landed and industrial wealth of the country by Land-mortgage or Industrial Banks, there is every reason to believe that the need for borrowing abroad would have been obviated to a very large degree. Suggestions were made more than a generation ago to attract Indian capital by means, if necessary, of a British Government guarantee of the Indian public debt. But high authorities in Indian finance set their face against such an idea, and the proposal was ruled out of court. * Today the Indian investor has learnt

*Said Sir J. Strachey in the Financial Statement of 1880-81:—

"I can imagine few greater misfortunes to India than the loss of her financial independence and the acceptance by England of the financial responsibility for her Indian Empire It would signify to India the loss of control over her own affairs in every department of her administration, the possible subordination of her interests to those of a foreign country and the substitution of ignorance for knowledge in her Government. Although some rare instances may be found in which, when there seemed to be a conflict between English and Indian interests, it may perhaps be doubted whether India has been treated with perfect fairness, there can be no question, that on the whole, the Government of India has been

(See by page)

Koviloor Academy

to appreciate the value of Industrial investment, and he needs no exterior guarantee to induce him to invest in Government securities. The danger rather is that, being unfamiliar with the wiles of the company promoter, he may be victimised, unless Government creates institutions like an Industrial Bank to aid him in selecting investments. If the Government should attach to the proposed Imperial Bank a branch for Industrial and another for Agricultural finance, there is every reason to believe that the need for foreign borrowing would disappear altogether. †

A Proposal For Purchase of Sterling Debt.

At the present time, in view of the Exchange difficulty, the suggestion may be hazarded that the Government of India can and should undertake a policy of buying out the Indian debt held in sterling in England. Though we have paid for them at the rate of £ 1=15 Rs., our own sterling securities in the Gold Standard and the Paper Currency Reserves have depreciated till they are not worth half the amount in rupees that was paid for them. India, however, continues to show unmistakable signs of general prosperity, as evidenced by the heavy balance of trade in her favour: and the need for her raw materials and foodstuffs for the exhausted and reconstructing peoples of Europe is so great, that we need apprehend no reversal of these favourable conditions for some ten years

carried on with as honest and thorough a regard for Indian interests as if India had a separate national existence of her own..... These fortunate results have however, been due not only to the justice but also to the wisdom with which she has left to India a separate financial responsibility. England has felt that it would be no kindness to take upon herself burdens which India now bears, to guarantee Indian debts, pay for Indian wars, relieve Indian famines."

† We have already mentioned in the previous part that unknown quantities of available capital remain unused in the form of public charities, religious endowments, monastic or other hoards. It would be the duty of an Imperial Bank to try and attract this otherwise idle and injurious wealth for purposes of material improvement. If the Bank takes the matter in hand it can realise the ideal much more easily than the necessarily high-handed action of the Government.

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or more. ‡ The heavy balance of trade in favour combined with the impossibility of finding sufficient gold to pay India for her excess of exports, and the appreciation of the rupee due to the scarcity of silver supplies, has brought about such a state of Exchange as to make our sterling indebtedness worth half the amount in rupees or less. The Budget Estimates for 1919–20 give our total sterling debt at £ 194,142,575, for which a sum of 150 crores, at the present rate of Exchange would be quite sufficient. If we take our average balance of Exports at £ 80 millions, or, deducting Home charges, at £ 50 millions, three years' balance would suffice to take up all our foreign indebtedness. If the British Government could be induced to mobilise the securities of the Indian Government held in England—as they did in the case of American securities held in England to meet the difficulties of the Anglo-American Exchange—and sell the same in this country, the present exchange difficulty would be considerably modified, if not eliminated altogether; at the same time it would help to cancel India's sterling indebtedness. Incidentally, if the whole transaction were entrusted to the proposed Imperial Bank, it might be availed of to bring about a quiet but effective change in the standard of the country, from silver to gold.

The Budget of 1921–22 set afoot a special scheme of conversion and redemption. In view of the continually rising rate of interest, anxiety was displayed on behalf of the holders of the depreciating securities, during Budget discussions in the Imperial Council. In response the Government have created a special sinking fund of Rs. 80 lakhs a year for buttressing War Loans. It was rightly urged against this scheme

‡ This was written in February 1920. Since then the ill-advised haste of the Government of India to give effect to the recommendations of the Currency Committee, and their mad venture for the sale of Reverse Councils has entirely reversed the situation. We still feel convinced there is no occasion to fear intense trade depression in this country, so long as least at the war-wasted regions of Europe are not fully reconstructed, if only the Government of India would give us an honest currency system, if only we could have our foreign exchanges immune from the amateur meddling of incompetent financiers.

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that it made an invidious distinction between the holders of different classes of Government securities, all the more objectionable because the investors in the War Loans knew when they invested that they were subscribing for powder and shot, which when fired, would leave no realisable assets; while the holders of the earlier securities of 3½% or 3% were, at the time they invested, advancing against profitable productive assets. Besides, the bulk of the holders of the earlier and relatively more depreciated securities, are minors, widows, trustees and charitable institutions. It might reasonably be expected that Government should be at least equally alive to the need and service of this less noisy, though more deserving class of public creditors. The expedient of two non-official committees, one for Bombay and one for Calcutta, is scarcely calculated to afford a fair and an acceptable solution of this important question of public credit.

The total debt of the Government of India, then, has either been fastened upon India when it should not in simple justice at all have fallen upon India; or been incurred under pretences of productivity that have not been realised. Raised without the consent of the people, and used for objects not always of unmitigated benefit to the Indian nation, the problem of the Indian Public Debt threatens to be one of the most thorny questions of our national economics in the near future. Those insidious methods of lightening the load of the public debt which are bound up with an unrestrained activity of the currency printing press, are not yet open to India; and they are of questionable propriety even for those to whom they are accessible. The diffusion of the Debt in classes of the people who comprise the ignorant, the disabled or the helpless, makes it still more difficult to suggest brazenly the simple solution of a total repudiation. The only question is a readjustment of financial obligations—past and future—between India and England, and the reapportionment of the Debt on a basis of equity. But judging from the fate of a recent resolution in the Council of State on the subject, there seems no chance of such a happy consummation.

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high way is a narrow and a thorny road bestrewn with many obstacles, and those who would walk there must have perseverance, earnestness, self-restraint, and above all, courage, moral as well as physical. What is wanted is that deep-rooted conviction which guides the energy of the oppressed towards the performing of great deeds. The palm of freedom is for the brave, the patient, the serious, and the industrious." The book contains many striking eqisodes towards the performing of great deeds.

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S. GANESAN.